

BEA東亞銀行

The Bank of East Asia, Limited
東亞銀行有限公司
(Incorporated in Hong Kong with limited liability in 1918)
(Stock Code: 23)

TERMS OF REFERENCE

OF

THE AUDIT COMMITTEE

1. CONSTITUTION

The Board of Directors resolved on 29th September, 1998 to establish a committee known as the Audit Committee to assist the Board in providing an independent review of the effectiveness of the financial reporting process, risk management and internal control systems of The Bank of East Asia, Limited (the "Bank") and its subsidiaries (collectively, the "Bank Group"). The Committee was formed pursuant to the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). Terms of Reference of the Committee were and will be updated and amended with reference to the relevant provisions and Corporate Governance Code (the "Code") of the Listing Rules, as amended from time to time.

2. MEMBERSHIP

2.1 The Committee members shall be appointed by the Board from amongst the Non-Executive Directors of the Bank and shall consist of not less than three members. The majority of the Committee members must be Independent Non-executive Directors. The Committee must be chaired by an Independent Non-executive Director. A quorum shall be two members.

2.2 The Chairman of the Committee shall be appointed by the Board.

2.3 The tenure limit of Committee member for serving on the Committee shall be the tenure of office of that member serving as Director on the Board or subject to the decision of the Board from time to time.

2.4 A former partner of the Bank's existing external auditors is prohibited from acting as a member of the Committee for a period of two years commencing on the date of his/ her ceasing (a) to be a partner of the audit firm; or (b) to have any financial interest in the audit firm; whichever is later.

3. ATTENDANCE AT MEETINGS

The Group Chief Financial Officer, the Group Chief Auditor and representative(s) of the external auditor shall normally attend meetings. The Committee shall invite any appropriate person(s) to attend the meeting whenever it is necessary. Other Board members shall also have the right of attendance.

4. SECRETARY

The Company Secretary or his/her delegate shall act as the secretary of the Committee.

5. FREQUENCY OF MEETINGS

Meetings shall be held not less than four times a year. Ad hoc meeting will also be convened whenever situation warrants. The external auditor may request a meeting if they consider that one is necessary.

6. AUTHORITIES

6.1 The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

6.2 The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

6.3 The Committee shall be provided with sufficient resources to perform its duties.

7. DUTIES

7.1 The scope of the Committee's review shall not be restricted to activities at the "bank" level, but should extend to activities at the "group" level, insofar as they fall within the duties of the Board.

7.2 The duties of the Committee shall be:

Relationships with the external auditor

(a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor[1], and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences, and ensure co-ordination where more than one audit firm is involved. Procedures to review and monitor the independence of external auditor may include:-

(i) consider all relationships between the Bank and the audit firm (including non-audit services);

[1] In accordance with the Listing Rules, removal of the external auditor before the end of the auditor's term of office requires shareholders' approval at a general meeting.

7. DUTIES (CONTINUED)

(ii) obtain from the audit firm annually, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff; and

(iii) meet with the external auditor, at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditor may wish to raise.

(c) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

(d) to act as the key representative body for overseeing the Bank's relations with the external auditor;

Review of financial information

(e) to monitor integrity of the financial statements, annual report and accounts, and half-year report (including Directors' Report, Chairman's Statement and management discussion and analysis), and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:-

(i) any changes in accounting policies and practices;

(ii) major judgmental areas;

(iii) significant adjustments resulting from audit;

(iv) the going concern assumptions and any qualifications;

(v) compliance with accounting standards; and

(vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

7. DUTIES (CONTINUED)

(f) Regarding (e) above:-

(i) members of the Committee should liaise with the Board, senior management, the Group Chief Financial Officer and the Group Chief Auditor and the Committee must meet, at least twice a year, with the external auditor; and

(ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Group Chief Financial Officer, Chief Compliance Officer, Group Chief Auditor or external auditor;

Oversight of financial reporting system, risk management and internal control systems

(g) to review the financial controls, risk management and internal control systems and the risk governance arrangements and risk appetite framework;

(h) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. The discussion should include the adequacy of resources (internal and external) for designing, implementing and monitoring the risk management and internal control systems, including, staff qualifications and experience, training programmes and budget of the Bank's accounting, internal audit and financial reporting functions;

(i) to consider major investigation, findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(j) to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, and to review and monitor its effectiveness;

(k) to review the Group's financial and accounting policies and practices;

(l) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response and to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

7. DUTIES (CONTINUED)

(m) to review regular reports from the internal audit function summarizing the results of internal audit's work and follow-up of management's resolution of identified issues;

(n) to review the on-site examination reports of the Hong Kong Monetary Authority and bring major findings (including all high severity findings and/or findings of risk governance nature) to the attention to the Board;

(o) Regarding (n) above:-

(i) Taking into account of the Board's allocation of responsibility for oversight of risk management to the Risk Committee, the Committee shall obtain relevant information from the Risk Committee and review the on-site examination reports of the Hong Kong Monetary Authority regarding risk management matters that may have a significant impact on the Group's financial standing and reputation, and ensure that the matters have been properly addressed, and any significant impact of these issues is reflected in the financial statements; and

(ii) Where there is a perceived overlap of responsibilities between the Committee and the Risk Committee, the respective Committee Chairmen shall have the discretion to agree the most appropriate committee to fulfill any obligation as delegated by the Board. An obligation under the terms of reference of the Committee or the Risk Committee will be deemed by the Board to have been fulfilled providing it is dealt with by either the Committee or the Risk Committee.

(p) to review arrangements employees of the Bank can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

Performing corporate governance functions

(q) to perform the following corporate governance duties as delegated by the Board:

(i) to develop and review the policies and practices on corporate governance and make recommendations to the Board;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

7. DUTIES (CONTINUED)

(iii) to review and monitor the policies and practices on compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(v) to review the compliance with the Code and disclosure in the Corporate Governance Report;

Oversight of internal audit function

(r) to appoint (or make recommendations to the Board regarding the appointment to) the Group Chief Auditor;

(s) to approve, periodically, the internal audit plan as well as the related manpower and financial resources required after identifying the areas of risks within the Bank Group's operations to be covered;

(t) to review the performance of the Group Chief Auditor and the effectiveness of internal audit function;

Others

(u) to report to the Board on the matters in section 7.2 of these Terms of Reference; and

(v) to consider other topics, as defined by the Board.

8. REPORTING PROCEDURES

(a) The secretary shall circulate the agenda and the minutes and reports of meetings of the Committee to all members of the Board.

(b) Semi-annual reporting to the Board

Reports to the Board should cover, as appropriate, the work and findings of the Committee under the following areas:

- Financial and other reporting
- Financial controls, operational controls, compliance controls and risk management functions
- Audits
- Corporate governance
- Other duties and responsibilities

8. REPORTING PROCEDURES (CONTINUED)

(c) Disclosures in Corporate Governance Report in the Annual Report

Disclosures should include the following information:

- the role and function of the Committee;
- the composition of the Committee (including names of Committee members and identifying the Chairman of the Committee);
- the number of the Committee meetings held during the year to discuss matters and record of attendance of members, by name, at meetings held during the year;
- a summary of the work during the year, including a report on how the Committee met its responsibilities in its review of the half-yearly and annual results, its review of the risk management and internal control systems, the effectiveness of the internal audit function, and its other duties under these Terms of Reference;
- details of non-compliance with rule 3.21[2] of the Listing Rules (if any) and an explanation of the remedial steps taken by the Bank to address such non-compliance with establishment of the Committee and
- a summary of the work regarding corporate governance during the year, including determining the policy for the corporate governance of the Bank, and duties performed by the Committee under section 7.2(o) of these Terms of Reference.

9. FREQUENCY OF REVIEW

These Terms of Reference should be reviewed on an annual basis and as required.

10. In the event of a conflict between the Chinese translation and the English text hereof, the English text will prevail.

[2] Listing Rule 3.21: Every listed issuer must establish an audit committee comprising non-executive directors only. The audit committee must comprise a minimum of three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under rule 3.10(2). The majority of the audit committee members must be independent non-executive directors of the listed issuer. The audit committee must be chaired by an independent non-executive director.