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Managing risk is a core part of our day-to-day activity. We protect our operations against compliance risks, and have strong, transparent corporate governance procedures in place. We also have robust procedures to manage information risks such as data privacy, cybersecurity and equal opportunities.

Our supply chain must adhere to our strict ESG standards, and our tendering processes prioritise fairness, transparency and sustainability.



“THREE LINES OF DEFENCE” FRAMEWORK

Our risk management is assigned to three lines of defence:



The first line of defence is our business units. They identify, record, report and manage risks, and enforce controls and assessments to mitigate those risks. Most of Hang Seng's people are in this first line, including risk owners, control owners and business risk and control managers.



The second line is risk management specialists. These include the sustainability risk manager, wholesale credit risk, risk stewards and operational risk department. They set and implement policies and guidelines for managing risk.



The third line is Internal Audit. It provides independent and objective assurance as to whether the design and operational effectiveness of the Bank's framework of risk management, control and governance processes, as designed and represented by management, is adequate.

Managing Different Types of Risk

Compliance risks

Our credibility relies on our operational integrity and the transparency of the information we provide to stakeholders. Upholding strong corporate governance, adhering to the highest ethical standards and effectively managing risk are essential to being an accountable, transparent and well-managed company.

Compliance issues are discussed and reviewed by the Board and various management committees. The Board has collective responsibility for promoting the long-term sustainability and success of the Bank by providing forward-thinking leadership within a framework of prudent and effective controls.

The Board upholds high standards of integrity and ethics. Matters relating to internal control and risk management governance, as well as policies and practices on compliance with legal and regulatory requirements, are considered at Board meetings.

We are committed to quality, professionalism and integrity throughout our business. We ensure that staff comply with both the letter and the spirit of all relevant laws, codes, rules, regulations, guidelines and codes of conduct. In any jurisdiction where local compliance requirements are of a lower standard than those established by our policies, our higher standards apply (where they do not conflict with local law).

Financial, tax and ESG risks

Regular reports on financial crime compliance and regulatory compliance are submitted to the senior management governance committees.

The Audit Committee reviews our financial reporting, the nature and scope of audit reviews, and the effectiveness of our internal control and compliance systems.

We manage tax risk based on a formal management framework. We adopted initiatives that aim to increase transparency, including the [US Foreign Account Tax Compliance Act](#) and the [OECD Standard for Automatic Exchange of Financial Account Information](#).

We do not employ tax avoidance structures or strategies, such as artificially diverting profits to low tax jurisdictions. We principally operate and pay taxes in Hong Kong but are committed to complying with the spirit and the letter of the tax law in all countries in which we operate, and maintaining an open and transparent relationship with tax authorities. Relevant financial information is disclosed in our Annual Report.

As a subsidiary of the HSBC Group, we follow the Group's tax policies, principles and strategies, as detailed on <https://www.hsbc.com>.

In accordance with HKEx's ESG Guide, the Board determines and evaluates risks faced by the Bank. It ensures that effective ESG risk management and internal controls are in place. Reviews of these systems were conducted in 2019. A year-end attestation was approved by the Board in April 2020.

No noncompliance with laws and regulations that resulted in significant fines or nonmonetary sanctions was recorded in 2019.

Competition Ordinance

Our Legal function continues to lead an extensive risk mitigation actions across all businesses and functions to ensure we fully comply with Hong Kong's Competition Ordinance. This complements our ongoing wider programme of competition risk mitigation. Staff are trained about the requirements of the ordinance on a regular basis.

Financial crime risks

We recognise that we have a responsibility to help protect the integrity of the global financial system. In order to fulfil that responsibility, we have made, and continue to make significant investments in our ability to detect, deter and prevent financial crime. We have continuously reviewed our customer portfolio and product offerings to ensure risk mitigating actions will be timely taken to address potential financial crime risk. We implemented HSBC Group's Global Standards initiative, which focused on putting in place the effective standards to combat financial crime across our operations in Hong Kong and overseas offices. As part of this effort, we implemented consistent policies on anti-money laundering (AML) and sanctions that often extend beyond the requirements of local laws and regulations. The relevant policies are subject to regular review by our and HSBC Group's financial crime compliance personnel. Among other steps, we hired experienced senior personnel to lead the effort and significantly increased our financial crime compliance capabilities; we put in place a robust

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investigations capability; we improved and expanded our financial crime compliance training initiatives; and we upgraded or replaced key compliance IT systems. Beyond these improvements, as part of our commitment to protect the integrity of the financial system, and to do our part to fight financial crime, we continue to enhance our systems and are working to integrate our reforms into our day-to-day risk management practice so that our programme is effective and sustainable over the long term.

Over the coming years, we aim to evolve significantly our approach to financial crime risk management by building advanced analytical capabilities, including artificial intelligence, designed to help us target illicit conduct with greater sophistication and precision. This will help us make a step change to our effectiveness at fighting financial crime. We continue to build a dynamic risk assessment process which will enable us to be faster and more accurate at detecting potential financial crime. We expect to generate actionable insights that we can use ourselves and provide to law enforcement to help keep criminals out of the financial system. This will benefit the Group, our customers and society at large.

We continue to focus on anti-bribery and corruption as part of adhering to HSBC Group's dedicated three-year programme to advance the Group's anti-bribery and corruption risk management capability. This programme has strengthened our controls and processes and improved our register of associated persons. The Group's programme is now focusing on enhancing the global gifts and entertainment register, which provides a consistent way to record, notify, approve and monitor gifts and entertainment. Dedicated financial crime compliance personnel is appointed to oversee anti-bribery and corruption compliance.

The global fraud landscape is characterised by increasingly sophisticated attacks targeting online banking and other digital services. We follow HSBC Group's fraud transformation programme and continue to prioritise investment in technology-based defences and training of our people to enhance our fraud defences.

Financial crime compliance-related issues and progress will be updated regularly and on thematic basis to relevant senior management governance committees, including but not limited to Executive Committee, Financial Crime Risk Management Committee, Risk Management Meeting, Risk Committee etc.

Our staff ensure we consistently operate ethically, honestly and with full accountability. For these employees on the frontlines, we provide training on banking regulations, codes of practice and data privacy. We ensure they are well-informed and vigilant regarding the detection and prevention of illicit and illegal activities such as bribery and corruption, money laundering and insider trading.

The Bank's directors completed mandatory training on conduct and culture, anti-bribery and corruption, and anti-money laundering in 2019. Staff who work in high-risk roles receive additional, specialised training regarding the detecting and deterring of financial crime. All employees are required to complete an e-learning programme that covers anti-bribery and corruption, anti-money laundering and sanctions. Role-specific training must also be completed by passing the assessment.

On average, staff in Hong Kong received 0.7 day of such training in 2019.

In 2019, no judgments were entered against the Bank in litigation regarding corruption.

As stipulated by HSBC Group, political contributions and recruitment cannot be used to build business relationships. In the past four years, we made no contributions in any form to lobbyists, trade associations, political organisations or campaigns.

For our policies on anti-money laundering, anti-bribery and corruption, and sanctions, please refer to this link: <https://www.hsbc.com/our-approach/risk-and-responsibility/financial-crime-risk/financial-crime-risk-policies>.

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Information risk

Data privacy

We continually strengthen our data privacy policy and instruct staff how to report security incidents. This includes training on data privacy compliance in Hong Kong. We have a clear desk policy that reduces opportunities for unauthorised data access. Our cybersecurity experts investigate breaches and, if necessary, escalate matters to the major incident group.

Specific processes for the handling and protection of customer data are set out in the relevant internal procedure manual.

Data privacy is overseen by individual businesses and functions as first-line risk owners. The Chief Data Officer is the first-line control owner. Our Legal function and Data Protection Officer provide second-line oversight. Officers at functional and business unit levels promote data protection and disseminate information on guidelines and developments. (See [Customer Privacy](#) section in Our Customers for details)

Cybersecurity

Banks are high-profile targets for criminals seeking financial gain, personal information and disruption. The potential effects of cyberattacks include financial loss, reputational damage and loss of customers. To protect against these, we engage an external consultant to conduct an annual cyber resilience assessment, using the NIST cybersecurity framework. This assessment helps to identify areas that require improvement and funding.

To strengthen our security, to safeguard the Bank and customers, and to ensure the resilience of our service, we have established a governance forum. Its members include businesses, IT, risk stewards and senior management. They oversee business risk profiles, key risk mitigation, cloud security, cybersecurity awareness, phishing tests, key risk items, material cyber threats, internal and external cybersecurity incidents, regulatory requirements, status of issues and mitigating actions.

We continue to invest in defence against ever more sophisticated cyberattacks. Specifically, we enhance our event detection, incident-response processes and protection against malware, deliberate-denial-of-service (DDoS) attacks and data leakage.

All staff are required to report cybersecurity incidents to our 24x7 hotline. Such incidents include possible or confirmed loss, leakage of restricted or internal information, leakage of customer data, and suspected or confirmed cyberattacks. Our experts manage the investigation of reported issues.

We share intelligence with law enforcement and the industry. This improves our understanding of – and ability to respond to – the evolving threats faced by us and our peers.

Cybersecurity training was delivered throughout 2019. It covered email security and phishing, password management, access control, incident reporting and escalation, secure use of communication devices and social media, our clear desk policy, information classification and labelling, system vulnerabilities and patching, ransomware, DDoS, etc. All staff have undertaken annual mandatory e-learning. Morning broadcasts are delivered monthly, and relevant emails are sent, company-wide, approximately twice a month.

The following training raised awareness of cybersecurity in 2019:

- ❖ Email security and phishing recognition (all staff)
- ❖ Digital Risk Forum (all staff)
- ❖ Cyber Awareness Week (all staff)
- ❖ Cyber Awareness Month (all staff)
- ❖ Cybersecurity Executive Summary (all Executive Committee members)
- ❖ Cyber briefing (Board of Directors of Hang Seng Bank and Hang Seng Insurance Company Limited)
- ❖ Cyber Stars classroom training (high-risk users)
- ❖ Cybersecurity awareness briefing (all business information risks officers)
- ❖ Asia Pacific Cybersecurity Leadership Team Offsite (Global Cyber Executive Committee and Asia Pacific cybersecurity staff)



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Equal opportunities, nondiscrimination and human rights

Human rights issues are complex and the roles and responsibilities of business and other stakeholders are subject to ongoing international dialogue. We are open and willing to engage in this dialogue where appropriate and constructive. No incidents of discrimination, or violation of the rights of indigenous peoples, were reported in 2019.

We are committed to an inclusive culture where our people managers are expected to create and foster a strong speak-up culture in their teams and our people can be confident that their views matter, where their workplace is an environment free from bias, discrimination and harassment, and where our people advance their careers based on merit.

All security personnel are trained in human rights policies, procedures and security applications. (See the [Equal Opportunities, Diversity and Inclusion](#) section in Our People) To nurture an inclusive culture within the Bank, all staff were directed to undertake diversity training. As of December 2019, more than 65 per cent have completed this e-learning.

Emergency risk

Our documented Business Continuity Plans, including arrangements for site recovery, ensure that critical operations will function in emergency situations. Our remote desktop allows staff to work from home without the need to retrieve their office computers. This enables the plans to be flexible and realistic.

To maintain our core banking services in a crisis or public emergency, a major incident group, leading and monitoring contingency plans, aims to steer appropriate decision for situation the Bank faces.

Internal risk mitigation

Staff Code of Conduct

To ensure the highest professional and ethical standards, all staff are required to follow the Code of Conduct. This is accessible via our intranet. Drawing on regulatory guidelines and industry best practice, the code sets out standards and values to which staff are required to adhere, and relevant legal and regulatory information. Under our Employees Recognition and Conduct Framework, performance and behavioural assessment is tied in with conduct.

The code covers the Bank's corporate values and business principles, staff borrowing, lending and dealing, employee bankruptcy, money laundering and sanctions, conduct in obtaining / granting business and business facilitation, outside directorships, employment and commercial interests, copyright and intellectual property, security and fraud prevention, social media, equal opportunities, and conflicts of interest.

Our culture empowers employees to do the right thing for our customers. We promote courageous integrity via skip-level exchanges with senior management. Our morning broadcast includes key messages about expected and unacceptable conduct. We share, via the intranet, stories of best practice and examples of speak-up heroes. We incentivise positive behaviour and values: in 2019, the number of staff who received positive recognition in their year-end variable pay increased by 20 per cent.

Conflicts of interest

We have policies and procedures to manage conflicts of interest involving our staff. Stringent internal structures ensure that duties are appropriately segregated. Staff in sensitive or high-risk areas are required to adhere to specific rules and undergo training on how to avoid conflicts of interest.

Whistle-blowing

We encourage the reporting of suspected internal business irregularities, human rights abuse and workplace misconduct, and provide grievance and whistle-blowing channels specifically for this purpose. We make every effort to ensure that employees can raise concerns confidentially and without fear of repercussion. Retaliation against whistle-blowers is not tolerated.

We adhere to the [HSBC Statement on Whistle-blowing Arrangements](#). HSBC Confidential is a whistle-blower disclosure line. It is a safe, simple route for staff when they feel normal channels of escalation are unavailable or inappropriate. All whistle-blowing cases are investigated by subject matter experts, in accordance with HSBC Group policies and standards.

Responsible Value Chain

Our financing decisions reflect our principles, our risk assessment processes, and the needs of our customers.

Addressing environmental and social risks as standard

Our credit evaluation process gauges environmental and social risks. We monitor our clients' implementation of, and compliance with, environmental and social requirements. If they deviate from the required standards, we work with them to establish a target date for compliance. If no progress is made, or a serious breach occurs, we exit the relationship. (See more in Concerted efforts)

For environmental risks, we follow the sustainability risk requirements in the Bank's Corporate Lending Policy. We have adopted the Equator Principles: voluntary guidelines for implementing sustainability standards in project finance.

Our business units conduct a sustainability risk analysis for all new and existing customers. This ensures that the products and services we offer are in line with the HSBC Group's [Sustainability Risk Policies](#). (See Responsible financing for more details)

For corporate customers, we conduct regular reviews to monitor compliance with the policies. As of December 2019, we were fully compliant.

We have specific [guidelines](#) on lending to businesses in environmentally sensitive sectors such as chemicals, energy, forestry, mining and metals, agricultural commodities, World Heritage Sites and Ramsar wetlands. These guidelines are refined and updated as required.

We send updates on environmental or social risk-related policies to all relevant parties on a timely basis. Up-to-date policies and guidelines can be accessed by relevant staff via the intranet. We host sustainability risk seminars to increase staff awareness. Training in our environmental and social policies is included in the New Joiners Induction Programme.

We continually enrich our investment funds suite – in both manufacturing and distribution – to incorporate products that are in keeping with our approach to ESG. We monitor regulatory and industry developments and explore ways to embed ESG factors in our product selection.

CONCERTED EFFORTS



Environmental impact assessments are a continual process and are incorporated in our standard credit evaluations. Customers unable to comply with our environmental policies and requirements by a specified deadline must obtain our formal approval for a temporary exemption or extension. Failing this, our managers will arrange to exit the relationship.



We are concerned about deforestation, which impacts on the habitat of millions of species. We require customers in the forestry sector to obtain 100 per cent international certification (FSC/PEFC certified) for activities in high-risk regions.



Responsible Value Chain

RESPONSIBLE FINANCING

We carefully assess environmental and social risks when deciding whether to make a loan or investment. Specific policies focus on sensitive sectors, including those outlined below. We have mechanisms to ensure our customers remain compliant with these policies.

HSBC has established and implemented its [Sustainability Risk Policies](#) at Group level. This embeds ESG into our investment approach, product design and day-to-day operations. As a principal member of the HSBC Group, Hang Seng has applied the relevant HSBC ESG strategies to its operations.



Agricultural commodities

We undertake special assessments of customers involved with soy production, cattle ranching or rubberwood production in certain high-risk regions. Enhanced governance in this sector aims to ensure that we maintain relationships with customers who engage in sustainable development. They must operate in accordance with international standards and industry practice, and provide a public commitment.



World Heritage Sites and Ramsar wetlands

We avoid supporting projects that may damage culturally important or ecologically sensitive areas, thereby conserving critical habitats and biodiversity.



Energy

We no longer finance any projects involved in new coal-fired power plants, new offshore oil or gas projects in the Arctic, new greenfield oil sands projects, etc.



Forestry

We work with customers to promote sustainable forestry.



Chemicals

When lending to the chemical industry, we adhere to international, regional and national standards. We work with our customers to achieve sustainable chemical manufacturing.



Defence equipment

Our policy establishes our appetite with regard to companies involved in the manufacture and trade of weapons. We do not provide financial services to customers which manufacture, sell, purchase or use anti-personnel mines and cluster bomb, and other weapons as per the related policy.



Mining and metals

Principles and standards govern our involvement in exploration, extraction, mine closure and reclamation, primary processing, etc. We assess potential customers linked to human rights abuses, and those with poor track records for work-related fatalities and accidents. We will not provide financing for new thermal coal mines, or new customers whose business includes thermal coal mines or mountaintop coal mining in the US.

Responsible Value Chain

Supply chain risk

We rely on vendors, agencies and third-party financial product suppliers to support our business. This enables us to offer diverse products and services, but potentially exposes us to reputational and other types of risk.

Effective supply chain management is therefore vital, to safeguard our brand and business, and to promote responsible practices among companies in our community. We require contractors and suppliers to adhere to our stringent environmental, social and ethical standards and to the principle of continual improvement.

We maintain transparency and fairness in our procurement process and contractual arrangements. Procurement is done on a competitive basis, and strict procedures govern employee conduct when handling such processes. Staff are trained to understand our internal controls and monitoring requirements.

For financial products and services, we work with reputable third-party suppliers who have demonstrably high corporate standards. Rigorous assessments ensure any investment or insurance solution we offer meets regulatory requirements and our own standards. We conduct regular reviews to ensure that service providers and their products meet the terms of our agreements.

Commitment to continual improvement

Our Third Party Supplier Risk policies provide clear and detailed information on the standards we expect our suppliers to uphold, and how we assess their performance.

We monitor suppliers following their appointment and reserve the right to randomly review their policies, procedures or documentation against our Code of Conduct. We may request an on-site audit to assess compliance with ESG regulations.

Tendering for sustainability

All contracted suppliers are required to acknowledge their compliance with the HSBC Group's [Ethical and Environmental Code of Conduct for Suppliers of Goods and Services](#). This outlines our economic, environmental and social standards, and the requirement for a governance and management structure that ensures compliance.

Suppliers are requested to have an established environmental management system (EMS). This is part of the supplier due diligence process.

A sustainability risk assessment is included in our purchasing policy documentation to ensure that suppliers clearly understand our requirements. It enables suppliers to assess their status and work out a development plan that meets our standards.



Suppliers with whom we have regular dealings must have acknowledged that they comply with our Code of Conduct. They must make reasonable efforts to ensure that their own supply chains are aware of, and comply with, our standards.

Electronic signatures in our procurement process help reduce paper consumption and lead times, and provide us with enhanced supplier and information management controls. We also encourage suppliers and contractors to use or offer environmentally-friendly and recycled products wherever possible.

According to our payment records in 2019, around 92.11 per cent of our suppliers are located in Hong Kong (the remainders are in Asia, Europe and the US).

Responsible Value Chain

Online risk profiles

An online platform, launched in October 2018, enables internal users to assess service and supplier risks relating to:

- ❖ Anti-bribery and corruption compliance
- ❖ Anti-money laundering and sanctions
- ❖ Business continuity and incident management
- ❖ Accounting risk
- ❖ Regulatory compliance
- ❖ Security of people and physical assets
- ❖ Subcontracting
- ❖ Tax
- ❖ Insurable risk
- ❖ Information and cybersecurity risk

The platform also monitors risks, supplier management and contract management for the duration of the engagement. It automatically notifies contract owners and the procurement team about the expiration of contracts, and ensures compliance with our Third-Party Risk Management Policy. It enables on-demand reporting, which greatly enhances visibility and control of the most important risks and services, at both aggregate and supplier-specific level. This helps satisfy growing demands from regulators for supplier risk management.

Contractor partnerships

Our procurement policy governs internal control of operating and capital expenditure, for all purchases and spending by the Bank. The policy supports operational efficiency, transparency, segregation of duties and our requirement to make “the best suitable buy”.

The procurement team engages and explores as many suppliers as possible through different means. For instance, it conducts briefings to allow bidders to become acquainted with tender requirements. We meet with existing and potential suppliers to review and strengthen business relationships, and to keep abreast of market trends.

We apply “fair competition” principles to all tender applications from appropriately qualified parties, and consider every vendor’s proposal in an unbiased, honest and equal way. We have a zero tolerance policy for corruption and bribery.

Before order release and payment settlement, all suppliers are subject to checks and ongoing screening. These ensure they do not reside in, are not incorporated in, and do not maintain their primary business operations in sanctioned countries, nor are they named on global sanction lists.

Human rights

We select contractors who fully comply with our supplier sustainability standards. These cover areas such as ethics, health and safety, employment, human rights and environmental performance. All of our suppliers commit to respecting the human rights of their employees and of individuals in their communities, and to complying with all relevant legislation, regulations and directives in the countries and communities in which they operate.

We avoid operating in associations with entities that might have a high risk of human rights violations. The code of conduct does not allow suppliers for any violation relating to the exercise of freedom of association or collective bargaining rights. All our major suppliers and contractors have conformed the prohibition use of child or forced labour. As part of the due diligence process, all of our suppliers are required to sign, and conform to, the Ethical and Environmental Code of Conduct for Suppliers of Goods and Services.

The Bank is committed to making a positive contribution to equal opportunities and diversity and inclusion in the workplace. This commitment reflects the principles of the Universal Declaration of Human Rights and the International Labour Organization Declaration on Fundamental Principles and Rights at Work, as well as the Codes of Practice on Employment promulgated by the Equal Opportunities Commission in Hong Kong.

