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(Stock code: 11)

ANNOUNCEMENT

CONTINUING CONNECTED TRANSACTIONS

Renewal of continuing connected transactions

Reference is made to the Company's announcement dated 21 June 2019 in which the Company disclosed that HSIC and INHK entered into the 2019 Management Services Agreement and HSIC and AMHK entered into the 2019 Investment Management Agreement, each for a term of three years, replacing previous agreements which had expired in accordance with the requirements of the Listing Rules.

As the 2019 Management Services Agreement and the 2019 Investment Management Agreement expire on 21 June 2022, HSIC and INHK have entered into the New Management Services Agreement and HSIC and AMHK have entered into the New Investment Management Agreement, each for another term of three years.

Listing Rules implications

INHK and AMHK both being indirect wholly-owned subsidiaries of HSBC, are connected persons of the Company by virtue of HSBC's indirect holding of shares in the Company, representing approximately 62.14% of the number of its shares in issue. The New Management Services Agreement and the New Investment Management Agreement are therefore continuing connected transactions of the Company.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in relation to the Annual Caps for the New Management Services Agreement is more than 0.1% but less than 5%, the New Management Services Agreement is exempt from the independent shareholders' approval requirement, and is subject only to the reporting, announcement and annual review requirements in respect of continuing connected transactions set out in Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in relation to the Annual Caps for the New Investment Management Agreement is more than 0.1% but less than 5%, the New Investment Management Agreement is exempt from the independent shareholders' approval requirement, and is subject only to the reporting, announcement and annual review requirements in respect of continuing connected transactions set out in Chapter 14A of the Listing Rules.

This announcement is being published pursuant to Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the Company's announcement dated 21 June 2019 in which it was mentioned that HSIC, a wholly-owned subsidiary of the Company, entered into the 2019 Management Services Agreement and the 2019 Investment Management Agreement and also set caps under them, for the period from 22 June 2019 to 21 June 2022 in accordance with the requirements of the Listing Rules.

As the 2019 Management Services Agreement and the 2019 Investment Management Agreement expire on 21 June 2022, HSIC and INHK have entered into the New Management Services Agreement and HSIC and AMHK have entered into the New Investment Management Agreement, each for another term of three years.

INHK and AMHK, both being indirect wholly-owned subsidiaries of HSBC, are connected persons of the Company by virtue of HSBC's indirect holding of shares in the Company, representing approximately 62.14% of the number of its shares in issue. The New Management Services Agreement and the New Investment Management Agreement are therefore continuing connected transactions of the Company, under which annual caps are required to be set under Chapter 14A of the Listing Rules.

NEW MANAGEMENT SERVICES AGREEMENT

On 21 June 2022, the New Management Services Agreement was entered into between HSIC and INHK setting out the terms upon which INHK, directly or through one or more of its Affiliates, will provide certain management services to HSIC. An Annual Cap has been set in respect of the maximum amount payable under the New Management Services Agreement.

Date

21 June 2022

Parties

HSIC

INHK

Term

INHK will provide the management services to HSIC for a term of three years commencing from 22 June 2022. HSIC has the right to terminate the agreement during the term by giving six months' notice in writing.

Services

INHK will provide management services on the matters set out below:

- (a) business risk and control management;
- (b) insurance operations services with respect to the life insurance business;
- (c) insurance operations services with respect to the product Exquisite;
- (d) investment operations;
- (e) transformation services,

and such other management services as may be agreed from time to time by the parties.

The New Management Services Agreement provides that HSIC shall have an overriding right to instruct INHK as to which categories of services it provides from time to time, the form and manner in which those services are provided and the amount of such services. A significant reduction in services requested by HSIC will require HSIC to give a minimum of six months' notice.

Fees

Subject to the Annual Caps, INHK will, on a quarterly basis, charge HSIC for the provision of the services on a fully absorbed cost basis plus a mark-up of 6%.

In addition, HSIC shall pay or reimburse INHK the salary and other emoluments of each secondee who provides services to HSIC pursuant to the New Management Services Agreement for such amount as agreed between HSIC and INHK from time to time.

These charges have been determined following negotiation on an arm's length basis and in accordance with the policy of the HSBC Group, which takes into account OECD transfer pricing guidelines. The Directors consider that these charges are no less favourable to the Group than those which would be payable to independent third party service providers in respect of the provision of similar services.

Limitation of liability

The aggregate liability of INHK for all claims made under or in connection with the New Management Services Agreement is limited to the chargeable costs of the management services provided by INHK or any of its Affiliates for a twelve month period, save for claims resulting from an act or omission by INHK which constitutes fraud or which cannot be excluded or limited by applicable law.

The Company considers the limitation of liability to be reasonably common in an agreement such as this and is comparable to similar management services agreements.

Annual Cap

The annual cap for the amount of fees payable to INHK under the New Management Services Agreement will be HK\$97 million for the period from 22 June 2022 to 31 December 2022, HK\$195 million for the year ending 31 December 2023, HK\$198 million for the year ending 31 December 2024, and HK\$101 million for the period from 1 January 2025 to 21 June 2025.

The aggregate amount paid under the 2019 Management Services Agreement was approximately HK\$28 million for the period from 22 June 2019 until 31 December 2019, HK\$41 million for the year ended 31 December 2020, HK\$39 million for the year ended 31 December 2021, and HK\$18 million (estimated) for the period from 1 January 2022 to 21 June 2022.

The annual cap has been calculated and determined after taking into account the following:

- (a) the historic rate in the fees paid under the 2019 Management Services Agreement;
- (b) the projected growth in services to be provided under the New Management Services Agreement in light of business growth; and
- (c) a buffer (which the Company considers prudent) above the anticipated cost to INHK to provide flexibility in the event of higher than expected costs or a greater than expected demand for management services.

REASONS FOR AND BENEFITS OF THE NEW MANAGEMENT SERVICES AGREEMENT

The New Management Services Agreement serves to continue the cost synergy that has been brought about by the economies of scale of INHK's operations. The Directors believe that this has enabled HSIC to run at a reasonably low cost structure by leveraging on the shared infrastructure and expertise of INHK. The resulting cost efficiency has contributed to increased competitiveness of HSIC's manufactured products in the market, which the Directors consider to be essential to the future business growth of HSIC.

The Directors (including the Independent Non-executive Directors) and the management of the Company consider that the entering into the New Management Services Agreement is an efficient means to provide HSIC with the management and technical input it needs to carry on its business. The Directors (including the Independent Non-executive Directors) consider that the New Management Services Agreement, and the transactions contemplated thereunder, are made on normal commercial terms or better as compared with similar management services agreements and in the ordinary and usual course of business of the Group, and that the terms thereof are fair and reasonable and in the interests of the Company and its shareholders as a whole.

NEW INVESTMENT MANAGEMENT AGREEMENT

On 21 June 2022, the New Investment Management Agreement was entered into between HSIC and AMHK setting out the terms upon which AMHK will act as investment manager in respect of certain of HSIC's assets held from time to time. An Annual Cap has been set in respect of the maximum amount payable under the New Investment Management Agreement

Date

21 June 2022

Parties

HSIC

AMHK

Term

AMHK will provide investment management services to HSIC for a term of three years commencing from 22 June 2022. Either party has the right to terminate the agreement during the term by giving to the other not less than three months' notice in writing.

Fees

Subject to the Annual Caps, HSIC will pay, on a quarterly basis, to AMHK a fee of between 0.05% and 0.5% per annum of the mean value of the assets under management. Such fees have been determined on an arm's length basis.

Annual Cap

The annual cap for the amount of fees payable by HSIC under the New Investment Management Agreement will be HK\$45 million for the period from 22 June 2022 to 31 December 2022, HK\$95 million for the year ending 31 December 2023, HK\$105 million for the year ending 31 December 2024, and HK\$60 million for the period from 1 January 2025 to 21 June 2025.

The amount paid under the 2019 Investment Management Agreement was approximately HK\$20 million for the period from 22 June 2019 until 31 December 2019, HK\$34million for the year ended 31 December 2020, HK\$35 million for the year ended 31 December 2021, and HK\$20 million (estimated) for the period from 1 January 2022 to 21 June 2022.

The annual cap has been calculated and determined after taking into account the following:

- (a) the historic rate of growth in fees paid under the 2019 Investment Management Agreement;
- (b) the projected growth in new business and in the value of assets under management under the New Investment Management Agreement; and
- (c) a buffer (which the Company considers prudent) above the anticipated level of fees or a greater than expected demand for the investment management services.

REASONS FOR AND BENEFITS OF THE NEW INVESTMENT MANAGEMENT AGREEMENT

By entering into the New Investment Management Agreement, HSIC may leverage on the global presence and broad investment capability of AMHK to gain access to investment opportunities in a versatile range of asset classes and markets. This will enable HSIC to maintain diversification within its portfolios and generate sustainable returns over the course of time.

The Directors (including the Independent Non-executive Directors) consider that the New Investment Management Agreement and the transactions contemplated thereunder, are made on normal commercial terms or better as compared with similar investment management agreements and in the ordinary and usual course of business of the Group, and that the terms thereof are fair and reasonable and in the interests of the Company and its shareholders as a whole.

CONTINUING CONNECTED TRANSACTIONS

INHK and AMHK, both being indirect wholly-owned subsidiaries of HSBC, are connected persons of the Company by virtue of HSBC's indirect holding of shares in the Company, representing approximately 62.14% of the number of its shares in issue. Each of the New Management Services Agreement and the New Investment Management Agreement is therefore a continuing connected transaction of the Company.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in relation to the Annual Caps for the New Management Services Agreement is more than 0.1% but less than 5%, the New Management Services Agreement is exempt from the independent shareholders' approval requirement, and is subject only to the reporting, announcement and annual review requirements in respect of continuing connected transactions set out in Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in relation to the Annual Caps for the New Investment Management Agreement is more than 0.1% but less than 5%, the New Investment Management Agreement is exempt from the independent shareholders' approval requirement, and is subject only to the reporting, announcement and annual review requirements in respect of continuing connected transactions set out in Chapter 14A of the Listing Rules.

None of the Directors have a material interest in the entry into of the New Management Services Agreement and the New Investment Management Agreement nor have they abstained from voting on the resolutions of the Directors in relation to the approval of the entry into of the New Management Services Agreement and the New Investment Management Agreement.

GENERAL

The Company and its subsidiaries are principally engaged in commercial and retail banking business and offer a comprehensive range of financial products and services to the Group's customers. HSBC and its subsidiaries are also principally engaged in commercial and retail banking business and offer a comprehensive range of banking and related financial services through an international network in the Asia-Pacific region, Europe, the Americas, the Middle

East and Africa. INHK is an insurance underwriting company. The principal activities of AMHK are management of client investment portfolios and provision of investment products and services.

This announcement is published pursuant to Rules 14A.35 and 14A.68 of the Listing Rules.

DEFINITIONS

“**2019 Investment Management Agreement**” means the investment management agreement dated 21 June 2019 between HSIC and AMHK

“**2019 Management Services Agreement**” means the performance level agreement relating to certain management services dated 21 June 2019 between HSIC and INHK

“**Affiliates**” means in relation to a party to the New Management Services Agreement, an entity which is a subsidiary, holding company or a subsidiary of the holding company of that party

“**AMHK**” means HSBC Global Asset Management (Hong Kong) Limited (formerly named HSBC Investments (Hong Kong) Limited), a company incorporated in Hong Kong with limited liability

“**Annual Cap**” means the maximum aggregate annual value payable by HSIC under, as the context requires, the New Management Services Agreement or the New Investment Management Agreement

“**Company**” means Hang Seng Bank Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 11)

“**connected person**” has the meaning ascribed to it under the Listing Rules

“**Directors**” means the directors of the Company

“**Group**” means the Company and its subsidiaries

“**HK\$**” means Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region, the People’s Republic of China

“**HSBC**” means HSBC Holdings plc, a company incorporated in England and Wales with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 5)

“**HSBC Group**” means HSBC and its subsidiaries

“**HSIC**” means Hang Seng Insurance Company Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company

“**Independent Non-executive Directors**” means the independent non-executive directors of the Company

“**INHK**” means HSBC Life (International) Limited, a company incorporated in Bermuda with limited liability

“**Listing Rules**” means the Rules Governing the Listing of Securities on the Stock Exchange

“**New Investment Management Agreement**” means the investment management agreement dated 21 June 2022 between HSIC and AMHK

“**New Management Services Agreement**” means the performance level agreement relating to certain management services dated 21 June 2022 between HSIC and INHK

“**OECD**” means the Organisation for Economic Co-operation and Development

“**Stock Exchange**” means The Stock Exchange of Hong Kong Limited

As at the date hereof, the Board of Directors of the Company comprise Irene Y L Lee* (Chairman), Diana Cesar (Chief Executive), L Y Chiang*, Cordelia Chung*, Kathleen C H Gan#, Clement K M Kwok*, David Y C Liao#, Kenneth S Y Ng*, Xiao Bin Wang* and Michael W K Wu*.

* *Independent Non-executive Directors*

Non-executive Directors

By Order of the Board
C C Li
Secretary

Hong Kong, 21 June 2022

恒生銀行有限公司

Hang Seng Bank Limited

Incorporated in Hong Kong with limited liability

Registered Office and Head Office: 83 Des Voeux Road Central, Hong Kong

Member HSBC Group