

# Corporate Governance Report

## Corporate Governance Principles and Practices

Hang Seng Bank Limited (the "Bank") is committed to maintaining and upholding high standards of corporate governance with a view to safeguarding the interests of shareholders, customers, employees and other stakeholders. The Bank has followed the module on "Corporate Governance of Locally Incorporated Authorised Institutions" ("CG-1") under the Supervisory Policy Manual ("SPM") issued by the Hong Kong Monetary Authority ("HKMA"). The Bank has also fully complied with all the code provisions and most of the recommended best practices set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKEx") (the "Listing Rules"). In 2018, HKEx announced changes to the Listing Rules which impose, among others, greater demand on the Board or the Nomination Committee when appointing Independent Non-executive Director ("INED") which took effect on 1 January 2019. The Bank has taken into account such new requirements when making necessary disclosure. Further, the Bank constantly reviews and enhances its corporate governance framework, by making reference to market trend as well as guidelines and requirements issued by regulatory authorities, to ensure that it is in line with international and local corporate governance best practices.

## Board of Directors

The Board has collective responsibilities for promoting the long-term sustainability and success of the Bank by providing entrepreneurial leadership within a framework of prudent and effective controls. In doing so, the Board commits to high standards of integrity and ethics.

According to the Board's terms of reference, specific matters reserved for the Board's consideration and decision include:

- strategic plan and objectives
- annual operating plan and performance targets
- annual and interim financial reporting
- capital plans and management
- risk appetite statement and profile update
- appointment and oversight of senior management, and succession plans for senior management
- internal control and risk management governance structure
- effective audit functions
- corporate culture, values and standards
- policies, practices and disclosure on corporate governance and remuneration
- significant policies and plans and subsequent changes
- acquisitions, disposals and purchases above predetermined thresholds
- whistleblowing policy and mechanism

## Chairman and Chief Executive

The roles of the Chairman and Chief Executive of the Bank are complementary, but importantly, they are distinct and separate with a clear and well established division of responsibilities. Details of their respective roles are set out in the Board's terms of reference.

The Chairman of the Board, who is an INED, is responsible for the leadership and effective running of the Board and for ensuring that decisions of the Board are taken on a sound and well-informed basis and in the best interest of the Bank. In addition, as the Chairman of the Board, he is also responsible for ensuring that all Directors are properly briefed on all issues currently on hand and receive adequate, accurate and reliable information in a timely manner. The Chairman possesses the requisite experience, competencies and personal qualities to fulfill these responsibilities.

The Chief Executive, who is an Executive Director (“ED”), is responsible for implementing the strategy and policy as established by the Board. The Chief Executive is also responsible for the management and day-to-day running of the Bank’s business and operations, as well as leading and chairing the Executive Committee.

### Board Composition

As at the date of this Annual Report, the Board comprises 13 Directors, of whom two are EDs and 11 are Non-executive Directors (“NEDs”). Among the 11 NEDs, six are INEDs. There is a strong independent element on the Board, to ensure the independence and objectivity of the Board’s decision-making process as well as the thoroughness and impartiality of the Board’s oversight of the Management.

The Board possesses, both as individual Directors and collectively, appropriate experience, competencies and personal qualities, including professionalism and integrity, to discharge its responsibilities adequately and effectively. In addition, the Board collectively has adequate knowledge and expertise relevant to each of the material business activities that the Bank pursues and the associated risks in order to ensure effective governance and oversight.

Members of the Board, who come from a variety of different backgrounds, have a diverse range of business, banking and professional expertise. Biographical details of the Directors, together with information relating to the relationship among them, are set out in the section “Biographical Details of Directors and Senior Management” in this Annual Report.

The Bank remains committed to meritocracy in the Boardroom, which requires a diverse and inclusive culture where Directors believe that their views are heard, their concerns are attended to and they serve in an environment where bias, discrimination and harassment on any matter are not tolerated. The Board has adopted a Board Diversity Policy which has been made available on the Bank’s website ([www.hangseng.com](http://www.hangseng.com)) for better transparency and governance. Board appointments are based on merit and candidates are considered against objective criteria, having due regard for the benefits of diversity on the Board including, but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Board considers that its diversity, including gender diversity, is a vital asset to the business.

An analysis of the Board’s current composition is set out in the following chart:



The Bank has maintained on its website ([www.hangseng.com](http://www.hangseng.com)) and on the website of HKEx ([www.hkexnews.hk](http://www.hkexnews.hk)) an updated list of its Directors identifying their roles and functions and whether they are INEDs. INEDs are also identified as such in all corporate communications that disclose the names of the Bank’s Directors.

Further, the Bank has received from each of the INEDs an annual confirmation of his/her independence. The independence of the INEDs has been assessed in accordance with the guidelines set out in Rule 3.13 of the Listing Rules and the SPM CG-1 issued by HKMA. Following such assessment, the Board has affirmed that all the INEDs continue to be independent.

### Board Process

Board meetings are held about six times a year and no less than once every quarter. Additional Board meetings, or meetings of a Board committee established by the Board to consider specific matters, can be convened, when necessary.

Schedule for the regular Board meetings in each year, together with the standing agenda for such meetings, are made available to all Directors before the end of the preceding year. In addition, notice of meetings will be given to all Directors at least 14 days before each regular meeting.

Other than regular meetings, the Chairman also meets with NEDs (including INEDs) without the presence of EDs, to facilitate an open and frank discussion among the NEDs on issues relating to the Bank.

The Board also meets with the representatives of HKMA to maintain a regular dialogue with the regulator where HKMA shares with the Board HKMA's overall supervisory assessment of the Bank and their key supervisory focuses on the banking industry in general.

Meeting agenda for regular meetings are set after consultation with the Chairman and the Chief Executive. All Directors are given an opportunity to include matters in the agenda.

Directors make their best efforts to contribute to the formulation of strategy, policies and decision-making by attending the Board meetings in person or via telephone or video-conferencing facilities. When INED is unable to attend the meeting via any means, INED will be asked to provide written views on items to be discussed ahead of the meeting.

Minutes of Board meetings with details of the matters discussed by the Board and decisions made, including any concerns or views of the Directors, are kept by the Company Secretary and are open for inspection by Directors.

In addition to the regular financial and business performance reports submitted to the Board at its regular meetings, the Board also receives financial and business updates with information on the Bank's latest financial performance and material variance from the Bank's annual operating plan during those months where no Board meetings are held. Directors can therefore have a balanced and comprehensive assessment of the Bank's performance, business operations, financial position and prospects throughout the year.

The Board reviews and evaluates its work process and effectiveness annually, with a view to identifying areas for improvement and further enhancement. The Board also regularly reviews the time commitment required from NEDs.

All Directors have access to the EDs as and when they consider necessary. They also have access to the Company Secretary who is responsible for ensuring that Board procedures, and related rules and regulations, are followed.

Under the Articles of Association of the Bank, a Director shall not vote or be counted in the quorum in respect of any contract, arrangement, transaction or other proposal in which he/she or his/her associate(s), is/are materially interested.

The Board has adopted a Policy on Conflicts of Interest. The Policy identifies the relationships, services, activities or transactions in respect of which conflicts of interest may arise and sets out measures for prevention or management of such conflicts. The Policy also contains an objective compliance process for implementing the Policy, which includes notification by a Director of conflicts or potential conflicts, and a review/approval process. In addition, the Policy also sets out provisions of the Board's approach to dealing with any non-compliance with the Policy.

The Board has been applying technology designed specifically around the Board to help the Directors manage their time more efficiently, while staying connected to the Board and other Directors in order to discharge their responsibilities effectively and securely.

During 2018, the Board held six meetings (including two offsite meetings in Shanghai) and the important matters discussed at Board meetings included:

Strategic Planning	Financial and Business Performance, and Capital Planning
<ul style="list-style-type: none"> <li>- annual review of strategic plan (2018 – 2020) with quarterly updates</li> <li>- the Bank's strategy on the Mainland</li> <li>- impact of the Sino/US trade conflicts on the Bank</li> </ul>	<ul style="list-style-type: none"> <li>- financial statements for the year ended 31 December 2017</li> <li>- interim financial statements for the six months ended 30 June 2018</li> <li>- declaration of the fourth interim dividend for year 2017 and first three interim dividends for year 2018</li> <li>- annual operating plan and capital plan for year 2018</li> <li>- reports on financial and business performance</li> <li>- internal capital adequacy assessment process</li> <li>- individual liquidity adequacy assessment process</li> <li>- results of HKMA supervisor-driven stress test for 2017 and Prudential Regulation Authority stress test scenarios for 2018</li> <li>- enterprise-wide stress testing scenario setting and annual review of the stress testing approach</li> <li>- update on resolution planning priorities</li> </ul>
Governance and Risk Management	Culture, Human Resources and Remuneration
<ul style="list-style-type: none"> <li>- global risk appetite framework addendum and risk appetite statement for 2018 with mid year review and quarterly profile update</li> <li>- enterprise risk management framework and risk governance structure for 2018</li> <li>- scope and approach on compliance with Basel Committee on Banking Supervision 239 Programme, including the adoption of risk data aggregation and risk reporting framework</li> <li>- effectiveness of environmental, social and governance risk management and internal control systems</li> <li>- quarterly reviews of large credit exposures and risk concentrations</li> <li>- significant policies and plans including, but not limited to, Recovery Plan, Contingency Funding Plan, Liquidity Management Policy, Connected Lending Policy, Capital Management Policy, Large Credit Exposure Policy and Conflicts of Interest Policy</li> <li>- annual review of credit approval authority limits</li> <li>- board effectiveness evaluation for 2017</li> <li>- review of Corporate Governance Strategy</li> <li>- review of the effectiveness of the Board and Board Committees</li> <li>- review of the structure, size and composition of the Board and the Non-executive Board Committees</li> <li>- "Ways of Working" Governance – meeting effectiveness</li> <li>- new and revised SPMs issued by HKMA from time to time</li> </ul>	<ul style="list-style-type: none"> <li>- adoption of Culture Statement</li> <li>- annual review of the implementation of corporate values and business principles</li> <li>- annual review of the remuneration policy and remuneration system</li> <li>- annual review of alignment of risk and remuneration</li> <li>- annual review of the remuneration of EDs, Senior Management and Key Personnel</li> <li>- appointments to the Bank's Audit and Risk Committees</li> <li>- appointments of Senior Management or executives</li> <li>- appointment of "managers" under the Banking Ordinance</li> <li>- resignation/retirement of INEDs</li> <li>- pay review for 2018 and variable pay for 2017</li> <li>- review of fees payable to Directors and Board Committee Chairmen/Members of the Bank and its subsidiaries</li> <li>- succession planning for the Board and senior management</li> <li>- performance management relating to Senior Management</li> <li>- re-election of Directors</li> <li>- terms of appointment of NEDs</li> <li>- review of independence of INEDs</li> <li>- workplace transformation programme</li> </ul>

### Appointment and Re-election of Directors

The Bank uses a formal, considered and transparent procedure for the appointment of new Directors. Before a prospective Director's name is formally proposed, opinions of the existing Directors (including the INEDs) will be solicited. The proposed appointment will first be reviewed by the Nomination Committee, taking into account the balance of skills, knowledge and experience on the Board. Upon recommendation of the Nomination Committee, the proposed appointment will then be reviewed and, if thought fit, approved by the Board after due deliberation.

Pursuant to Group policy, the Bank will conduct enhanced vetting for non-employee NEDs before his/her appointment and thereafter once every three years, as one of the measures to verify the continual fitness and propriety of the NEDs.

In accordance with the requirement under the Banking Ordinance, approval from HKMA will be obtained for appointment of new Directors.

The Bank issues appointment letters to each of the NEDs, setting out the terms and conditions of their appointment, including the time commitment expected of them. Additional time commitment is necessary if the NEDs also serve on committee(s) of the Board.

All new Directors are subject to election by shareholders at the next Annual General Meeting ("AGM") after their appointments have become effective. Further, the Bank's Articles of Association provide that all Directors shall be subject to retirement by rotation at least once every three years. Retiring Directors are eligible for re-election at AGMs of the Bank.

According to the policy on the term of appointment of NEDs, term of appointment of each NED is three years except that where a NED has served on the Board for more than nine years, then his/her term of appointment is one year. In renewing the term of appointment of each NED, the Board reviews whether such NED remains qualified for his/her position.

### Responsibilities of Directors

Directors have full and timely access to all relevant information about the Bank so that they can discharge their duties and responsibilities as Directors. In particular, through regular Board meetings and receipt of regular financial and business updates, all Directors are kept abreast of the conduct, business activities and development, as well as regulatory updates applicable to the Bank.

There are established procedures for Directors to seek independent professional advice on matters relating to the Bank where appropriate. All costs associated with obtaining such advice will be borne by the Bank. In addition, each Director has separate and independent access to the Bank's Management.

The Bank has adopted a Code for Securities Transactions by Directors on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (set out in Appendix 10 to the Listing Rules) with periodic review. Specific enquiries have been made with all Directors who have confirmed that they have complied with the Bank's Code for Securities Transactions by Directors throughout the year 2018.

Directors' interests in securities of the Bank and HSBC Group as at 31 December 2018 have been disclosed in the Report of the Directors set out in this Annual Report.

Appropriate Directors' liability insurance cover has also been arranged to indemnify the Directors against liabilities arising out of the discharge of their duties and responsibilities as the Bank's Directors. The coverage and the sum insured under the policy are reviewed annually. Further, the Bank's Articles of Association provide that Directors are entitled to be indemnified out of the Bank's assets against claims from third parties in respect of certain liabilities.

## Induction and Training for Directors

Induction programmes on the following key areas will be arranged for newly appointed Directors so that they can discharge their responsibilities to the Bank properly and effectively:

- directors' duties and responsibilities
- business operations and financial position
- risk management and internal control
- governance structure and practices
- control and support functions

Further, all Directors are provided with briefings and trainings on an on-going basis as necessary to ensure that they have a proper understanding of the Bank's operations and business, and are fully aware of their responsibilities under the applicable laws, rules and regulations. Such briefings and trainings are provided at the Bank's expense. The Bank maintains proper records of the briefings and trainings provided to and received by its Directors.

In addition, all Directors are provided with a "Memorandum of Directors", which sets out the scope and nature of Directors' duties and liabilities, particulars of Group policies and local regulatory and statutory requirements of which the Directors must be aware. Such memorandum is updated from time to time so as to reflect the latest internal policies/guidelines, regulatory/statutory requirements, and best practices.

During the year, Directors received briefings and trainings on the following topics:

- HKMA Programme – 2018 INED Conference
- 3rd Wave of Disruption
- The Basel Committee on Banking Supervision (BCBS) 239: Effective Risk Data Aggregation and Reporting
- Operational Risk Management Framework
- ICAC – Business Ethics for Listed Companies
- Cyber Risk Update
- Loan Market and Green Finance: What Directors Need to Know
- Regulator's Dialogue with Directors: Banking Regulation - What's next?
- RegTech: Harnessing Behavioural Science and AI Technology for Risk Management and Performance Optimisation
- HSBC Global Mandatory Training: Embedding Good Conduct, Bribery & Corruption, Anti-money Laundering, Sanctions, Data Privacy and Cyber Security

To summarise, Directors received briefings and trainings on the following key areas to update and develop their skills and knowledge during the year:

Directors	Training areas			
	Governance matters	Regulatory matters	Business/Management	Risk and Control
<b>INEDs</b>				
Dr Raymond K F Ch'ien	✓	✓	✓	✓
Dr John C C Chan	✓	✓	✓	✓
Ms L Y Chiang	✓	✓	✓	✓
Ms Irene Y L Lee	✓	✓	✓	✓
Dr Eric K C Li	✓	✓	✓	✓
Mr Michael W K Wu	✓	✓	✓	✓
<b>NEDs</b>				
Mr Nixon L S Chan	✓	✓	✓	✓
Ms Sarah C Legg	✓	✓	✓	✓
Dr Vincent H S Lo	✓	✓	✓	✓
Mr Kenneth S Y Ng	✓	✓	✓	✓
Mr Peter T S Wong	✓	✓	✓	✓
<b>EDs</b>				
Ms Louisa Cheang	✓	✓	✓	✓
Ms Margaret W H Kwan	✓	✓	✓	✓

## Delegation by the Board

### Board Committees

The Board has set up five Committees, namely, Executive Committee, Audit Committee, Risk Committee, Remuneration Committee and Nomination Committee, to assist it in carrying out its responsibilities.

The current composition of the Board Committees is as follows:

Board				
<b>Executive Committee</b> Ms Louisa Cheang (Chairman) Mrs Eunice Chan Ms Ivy S P Chan Mr Walter S W Cheung Ms Liz T L Chow Ms Margaret W H Kwan Mr Donald Y S Lam Mr Gilbert M L Lee <sup>Note 1</sup> Mr Sai Kit Lee Mr Andrew W L Leung Mr Godwin C C Li Mr Ryan Y S Song <sup>Note 2</sup> Ms Elaine Y N Wang Ms Daphne W K Wat <sup>Note 3</sup> Ms Katie K C Yip	<b>Audit Committee</b> Dr Eric K C Li* (Chairman) Ms L Y Chiang* <sup>Note 4</sup> Ms Irene Y L Lee*	<b>Risk Committee</b> Ms Irene Y L Lee* (Chairman) Dr Eric K C Li* Mr Kenneth S Y Ng <sup>Note 5</sup> Mr Michael W K Wu* <sup>Note 6</sup>	<b>Remuneration Committee</b> Dr John C C Chan* (Chairman) Ms L Y Chiang* Dr Raymond K F Ch'ien*	<b>Nomination Committee</b> Dr Raymond K F Ch'ien* (Chairman) Dr John C C Chan* Ms Louisa Cheang Mr Peter T S Wong# Mr Michael W K Wu*

\* INEDs

# NEDs

Note 1 Mr Gilbert M L Lee was appointed as Executive Committee member with effect from 14 February 2018.

Note 2 Mr Ryan Y S Song was appointed as Executive Committee member with effect from 7 June 2018.

Note 3 Ms Daphne W K Wat was appointed as Executive Committee member with effect from 1 June 2018.

Note 4 Ms L Y Chiang was appointed as Audit Committee member with effect from 25 July 2018.

Note 5 Mr Kenneth S Y Ng was appointed as Risk Committee member with effect from 21 January 2019.

Note 6 Mr Michael W K Wu was appointed as Risk Committee member, and ceased to be Audit Committee member, both with effect from 25 July 2018.

Each of these Committees has specific written terms of reference, which set out in detail their respective authorities and responsibilities. Each Committee reviews its terms of reference and effectiveness annually. The terms of reference of all the Non-executive Board Committees have been made available on the Bank's website ([www.hangseng.com](http://www.hangseng.com)). All Committees, except the Executive Committee and Nomination Committee, comprise solely of INEDs. Majority of the Nomination Committee members are INEDs while the Executive Committee comprises the Bank's EDs and senior executives.

All Committees adopt the same governance processes as the Board as far as possible and report back to the Board on their decisions and recommendations on a regular basis.

### Executive Committee

The Executive Committee meets approximately ten times a year and operates as a general management committee under the direct authority of the Board. It exercises the powers, authorities and discretions as delegated by the Board in so far as they concern the management and day-to-day running of the Bank in accordance with its terms of reference and such other policies and directives as the Board may determine from time to time. The Executive Committee also sub-delegates credit, investment and capital expenditure authorities to its members and senior executives.

To further enhance the Bank's risk management framework and in line with best practices, the Bank has set up a Risk Management Meeting, a risk meeting of the Executive Committee, to provide recommendations and advice to the Bank's Chief Risk Officer on enterprise-wide management of all risks, policies and guidelines for the management of risk within the HASE Group. Risk Management Meetings are held not less than ten times each year. Minutes of Risk Management Meetings are provided to the Executive Committee and the Risk Committee for review and oversight purpose.

## Audit Committee

The Audit Committee meets at least four times a year with the Bank's executives including the Chief Executive, Chief Financial Officer, Chief Risk Officer, Head of Audit, and representatives from the Bank's external auditor. The Committee reviews, among other things, the Bank's financial reporting, the nature and scope of audit reviews, and the effectiveness of the systems of internal control and compliance relating to financial reporting. The Audit Committee is also responsible for making recommendations to the Board on the appointment, re-appointment, removal and remuneration of the Bank's external auditor. In addition, the Audit Committee has established a "Policy for the Reporting of Improprieties" to provide a secured and confidential channel through which all staff members may report incidents of improprieties on a strictly confidential basis so that the same can be timely and thoroughly investigated and appropriate actions can be taken promptly.

The Audit Committee reports to the Board following each Audit Committee meeting, drawing the Board's attention to significant issues or matters of which the Board should be aware, identifying any matters in respect of which it considers that action or improvement is needed, and making relevant recommendations.

During the year, the Audit Committee held five meetings and the major work performed by the Committee was as follows:

- reviewed the financial statements for the year ended 31 December 2017 and the related documents, and internal control recommendations and audit issues noted by the Bank's external auditor
- reviewed the interim financial statements for the six months ended 30 June 2018 and the related documents, and the issues noted by the Bank's external auditor
- reviewed and approved the quarterly banking disclosure statements for reporting periods ended 31 December 2017, 31 March 2018, 30 June 2018 and 30 September 2018
- reviewed the annual operating plan and capital plan for year 2018
- reviewed the balance sheet management position
- reviewed the revised accounting standards and prospective changes to accounting standards, in particular, the update on IFRS9 implementation and the impact on the Bank's financial reporting
- reviewed the significant policies and plans including, but not limited to, the Bank's Recovery Plan
- reviewed the internal audit reports and discussed the same with the Management and Head of Audit
- reviewed and adopted the revised Internal Audit Charter and Audit Instruction Manual
- reviewed the update on internal audit plan for 2018 and approved the internal audit plan for 2019
- reviewed the update on Sarbanes-Oxley Act (SOX) implementation and internal control system assessment as at 31 December 2017 and 30 June 2018
- reviewed the adequacies of resources, qualifications and experience of staff of the Accounting and Financial Reporting function and Internal Audit function, and their training programmes and budgets
- reviewed the re-appointment, remuneration and engagement letter of the Bank's external auditor, its independence and objectivity, and the effectiveness of the audit process
- reviewed the incidents reported under the Policy for the Reporting of Improprieties during the year
- reviewed the Audit Committee's independence and effectiveness in discharging its role and responsibilities, and its terms of reference
- endorsed the appointment of an audit committee member of the Bank, and audit committee chairman of the Bank's insurance subsidiary

The Audit Committee also meets annually with the representatives of the Bank's Head of Audit and external auditor without the presence of the Management in accordance with its terms of reference.

### Risk Committee

The Risk Committee meets at least four times a year with the Bank's executives including the Chief Executive, Chief Financial Officer, Chief Risk Officer, Head of Audit, Head of Regulatory Compliance, Head of Financial Crime Compliance, and representatives from the Bank's external auditor. The Committee is responsible for, among other things, the Bank's high level risk related matters, risk appetite and tolerance, risks associated with proposed strategic acquisitions or disposals, risk management reports from the Management, effectiveness of the enterprise risk management framework and systems of internal control and compliance (other than that regarding financial reporting), and appointment and removal of the Chief Risk Officer.

Pursuant to HKMA's Circular on "Bank Culture Reform", the Board has also delegated to the Risk Committee to encompass culture-related responsibilities. Such responsibilities include actions to approve, review and assess, at least annually, the adequacy of any relevant statement which sets out the Bank's culture and behavioural standards.

The Risk Committee reports to the Board following each Risk Committee meeting, drawing the Board's attention to significant issues or matters of which the Board should be aware, identifying any matters in respect of which it considers that action or improvement is needed, and making relevant recommendations.

During the year, the Risk Committee held five meetings and the major work performed by the Committee was as follows:

- reviewed the update on implementation of HKMA's guidance on bank culture reform, and the progress update on the Bank's culture action plan, and endorsed the adoption of the Culture Statement
- reviewed the routine risk reports submitted by the Management including, but not limited to, enterprise risk management framework, risk governance structure, internal control system assessment, global risk appetite framework addendum and risk appetite statement with mid year review and profile update, risk maps, top and emerging risks, annual plan and progress update relating to financial crime compliance, regulatory compliance and internal control, and summary of HKMA's regulatory on-site examinations
- reviewed the enterprise wide risk assessment report, internal capital adequacy assessment process, and endorsed the individual liquidity adequacy assessment process, credit approval authority limits, risk data aggregation and risk reporting frameworks and other significant policies and plans including, but not limited to, the Bank's Recovery Plan, Contingency Funding Plan, Liquidity Management Policy, Connected Lending Policy, Capital Management Policy and Large Credit Exposure Policy
- reviewed the report on the alignment of risk and remuneration, and outcome of incentivising compliance for the pay review of performance year 2017
- reviewed the internal control recommendations and audit issues noted by the Bank's external auditor in the annual audit
- reviewed the Internal Audit Plan for 2019 and resourcing requirements, the revised Internal Audit Charter, the Audit Instruction Manual, and internal audit reports and key themes insofar as the same give rise to any risk-related issues
- reviewed the adequacies of resources, qualifications and experience of staff of the Risk and Compliance function, and their training programmes and budgets
- reviewed the incidents reported under the Policy for the Reporting of Improprieties during the year
- reviewed the update of cyber security risk and the revised accounting standards and prospective changes to accounting standards, in particular, the update on IFRS9 implementation, and the impact on the Bank insofar as the same give rise to any risk-related issues
- reviewed HKMA supervisor-driven stress test for 2017, and endorsed the scenarios setting and approach of the Bank's stress testing
- reviewed the Risk Committee's independence and effectiveness in discharging its role and responsibilities, and its terms of reference
- endorsed the appointment of a risk committee member of the Bank, and risk committee member of the Bank's insurance subsidiary

The Risk Committee also meets annually with the Bank's Chief Risk Officer and Head of Audit separately without the presence of the Management in accordance with its terms of reference.

## Remuneration Committee

The Remuneration Committee normally meets twice a year with the Bank's Head of Human Resources. The Committee considers and provides advice to the Board on the remuneration policy and structure in order to attract, motivate and retain quality personnel. Pursuant to delegation by the Board, the Committee also determines and proposes for the Board's approval the remuneration policy, and the specific remuneration packages of all EDs, senior management and key personnel. In addition, it reviews at least annually and independently of the Management, the adequacy and effectiveness of the Bank's remuneration policy and its implementation, to ensure that the Bank's remuneration policy is consistent with relevant regulatory requirements and promotes effective risk management.

In determining the bank-wide remuneration policy, the Remuneration Committee will take into account the Bank's business objective, people strategy, short-term and long-term performance, business and economic conditions, market practices, conduct, compliance and risk control, in order to ensure that the remuneration aligns with business and individual performance, promotes effective risk management, facilitates retention of quality personnel and is competitive in the market. The Committee may invite any Director, executive, consultant or other relevant party to provide advice in this respect, if necessary. In 2018, the Committee has requested to seek advice from an external consultant relating to the independent review of the Bank's remuneration policy and its implementation for year 2018.

The Remuneration Committee reports to the Board following each Committee meeting, drawing the Board's attention to significant issues or matters of which the Board should be aware, identifying any matters in respect of which it considers that action or improvement is needed, and making relevant recommendations.

During the year, the Remuneration Committee held three meetings and the major work performed by the Committee was as follows:

- endorsed the fees payable to the Bank's Chairman, and the Directors and Board Committee chairmen/members of the Bank and its subsidiaries
- endorsed the remuneration packages of Directors, senior management and key personnel of the Bank
- reviewed the new approach of pay review process for performance year 2017
- endorsed the proposed variable pay for 2017 and pay review proposal for 2018
- reviewed the report on the alignment of risk and remuneration, and outcome of incentivising compliance for the pay review of performance year 2017
- reviewed the revised remuneration policy and the list of the Bank's material risk takers to further strengthen the governance in response to tightened regulatory requirements
- approved the appointment of independent reviewer for the Bank's remuneration policy and its implementation
- reviewed the outcome of the independent review by an external reviewer of the Bank's remuneration policy and remuneration system, and the adequacy and effectiveness of its implementation
- reviewed the Remuneration Committee's effectiveness in discharging its role and responsibilities, and its terms of reference

### Nomination Committee

The Nomination Committee meets at least twice a year. It leads the process for Board appointments and identifies and nominates candidates for appointment to the Board, for the Board's approval. The Committee also considers, among other things, the structure, size and composition of the Board and Non-executive Board Committees, independence of INEDs, re-election of Directors, term of appointment of NEDs, time commitment required from NEDs, appointment to Board Committees, and approves the appointment to the position of "manager" as defined under the Banking Ordinance.

The Nomination Committee reports to the Board following each Committee meeting, drawing the Board's attention to significant issues or matters of which the Board should be aware, identifying any matters in respect of which it considers that action or improvement is needed, and making relevant recommendations.

During the year, the Nomination Committee held three meetings and the major work performed by the Committee was as follows:

- endorsed the appointment of Audit and Risk Committee members, an Executive Committee member and the Head of Audit
- approved the appointment of "managers" under the Banking Ordinance
- reviewed the structure, size and composition of the Board and Non-executive Board Committees
- reviewed the succession planning for the Board and senior management
- reviewed the independence of INEDs
- reviewed the time commitment required from NEDs
- endorsed the renewal of terms of appointment of NEDs
- endorsed the re-election of Directors
- approved the revised appointment letter for NEDs
- reviewed the Nomination Committee's effectiveness in discharging its role and responsibilities, and its terms of reference

## Attendance Records

The attendance records of Board and Board Committee meetings held in 2018 are as follows:

	Meetings held in 2018						
	AGM	Board	Executive Committee	Audit Committee	Risk Committee	Remuneration Committee	Nomination Committee
Number of Meetings	1	6	10	5	5	3	3
<b>Directors</b>							
Dr Raymond K F Ch'ien* (Chairman)	1/1	6/6	–	–	–	3/3	3/3
Ms Louisa Cheang (Vice-Chairman and Chief Executive)	1/1	6/6	10/10	–	–	–	3/3
Dr John C C Chan*	1/1	6/6	–	–	–	3/3	3/3
Mr Nixon L S Chan#	1/1	6/6	–	–	–	–	–
Dr Henry K S Cheng* Note 7	0/1	0/2	–	–	–	–	–
Ms L Y Chiang*	1/1	5/6	–	1/1	–	2/3	–
Dr Fred Zulu Hu* Note 8	–	2/2	–	–	2/2	–	–
Ms Margaret W H Kwan	1/1	6/6	9/10	–	–	–	–
Ms Irene Y L Lee*	1/1	6/6	–	5/5	5/5	–	–
Ms Sarah C Legg#	1/1	6/6	–	–	–	–	–
Dr Eric K C Li*	1/1	6/6	–	5/5	5/5	–	–
Dr Vincent H S Lo#	1/1	5/6	–	–	–	–	–
Mr Kenneth S Y Ng#	0/1	6/6	–	–	–	–	–
Mr Richard Y S Tang* Note 9	1/1	2/2	–	2/2	–	–	–
Mr Peter T S Wong#	1/1	4/6	–	–	–	–	3/3
Mr Michael W K Wu*	0/1	5/6	–	4/4	1/1	–	2/3
<b>Senior Management</b>							
Mrs Eunice Chan	–	–	8/10	–	–	–	–
Ms Ivy S P Chan	–	–	9/10	–	–	–	–
Mr Walter S W Cheung	–	–	8/10	–	–	–	–
Ms Liz T L Chow	–	–	9/10	–	–	–	–
Mr Donald Y S Lam	–	–	10/10	–	–	–	–
Mr Gilbert M L Lee	–	–	7/8	–	–	–	–
Mr Gordon W C Lam Note 10	–	–	4/5	–	–	–	–
Mr S K Lee	–	–	9/10	–	–	–	–
Mr Andrew W L Leung	–	–	10/10	–	–	–	–
Mr Godwin C C Li	–	–	10/10	–	–	–	–
Mr Ryan Y S Song	–	–	5/5	–	–	–	–
Mr Thomas C M Tsui Note 11	–	–	2/3	–	–	–	–
Ms Elaine Y N Wang	–	–	9/10	–	–	–	–
Ms Daphne W K Wat	–	–	4/5	–	–	–	–
Ms Katie K C Yip	–	–	9/10	–	–	–	–
<b>Average Attendance Rate</b>	80%	89%	89%	100%	100%	89%	93%

\* INEDs

# NEDs

Note 7 Dr Henry K S Cheng retired as an INED with effect from the conclusion of the AGM held on 10 May 2018.

Note 8 Dr Fred Zulu Hu resigned as an INED and ceased to be Risk Committee member with effect from 9 May 2018.

Note 9 Mr Richard Y S Tang retired as an INED and ceased to be Audit Committee member with effect from the conclusion of the AGM held on 10 May 2018.

Note 10 Mr Gordon W C Lam ceased to be Executive Committee member with effect from 7 June 2018.

Note 11 Mr Thomas C M Tsui resigned as Head of Global Banking and ceased to be Executive Committee member with effect from 24 March 2018.

## Remuneration of Directors, Senior Management and Key Personnel

The Bank's policy on remuneration is to maintain fair and competitive packages based on business needs and industry practice.

### Remuneration of Directors

The level of fees paid to NEDs is determined by reference to factors including Directors' responsibilities and commitment, and fees paid by comparable institutions.

As regards EDs, the following factors are considered when determining their remuneration packages:

- business objectives
- general business and economic conditions
- changes in appropriate markets such as supply/demand fluctuations and changes in competitive conditions
- individual contributions to results as confirmed in the performance appraisal process
- retention consideration and individual potential

No individual Director will be involved in decisions relating to his/her own remuneration.

The current scale of Director's fees, and fees for chairmen and members of the Non-executive Board Committees, namely, Audit Committee, Risk Committee, Remuneration Committee and Nomination Committee, are set out below:

	(HK\$)		(HK\$)
<b>Board of Directors</b> <sup>Note 12</sup>		<b>Remuneration Committee/Nomination Committee</b>	
Chairman	650,000	Chairman	90,000
Non-executive Directors	500,000	Members	60,000
<b>Audit Committee/Risk Committee</b>			
Chairman	290,000		
Members	180,000		

<sup>Note 12</sup> In line with the remuneration policy of HSBC Group, no Director's fee is payable to those Directors who are full time employees of the Bank and its subsidiaries.

Information relating to the remuneration of Directors on a named basis for the year ended 31 December 2018 is set out in Note 15 to the Bank's 2018 Financial Statements.

### Remuneration of Senior Management and Key Personnel

According to HKMA's SPM CG-5 "Guideline on a Sound Remuneration System", authorised institutions are required to make disclosures in relation to their remuneration systems as appropriate. The Bank has fully complied with HKMA's disclosure requirements set out in Part 3 of the said Guideline.

There are 17 employees being classified as Senior Management<sup>Note 13</sup> and four employees identified as Key Personnel<sup>Note 14</sup> during the year. The aggregate amount of remuneration<sup>Note 15</sup> of the Senior Management and Key Personnel during the year, split into fixed and variable remuneration, is set out below:

Amount (HK\$ '000)	2018 <sup>Note 16</sup> (21 employees)		2017 <sup>Note 16</sup> (20 employees)	
	Non-deferred	Deferred	Non-deferred	Deferred
<b>Fixed remuneration</b>				
Cash	58,080	–	68,947	–
Shares	–	–	–	–
<b>Variable remuneration</b>				
Cash	21,496	10,447	16,905	7,422
Shares	10,342	13,884	7,973	9,993

<sup>Note 13</sup> Senior Management refers to those executives who are (a) EDs of the Bank; (b) Alternate Chief Executives of the Bank; (c) Members of the Executive Committee of the Bank; and (d) Head(s) of the Bank's principal subsidiary/subsidiaries with offshore operations and with total assets representing more than 5% of the Bank's total assets.

<sup>Note 14</sup> Key Personnel refers to employees classified as "Identified Staff and Material Risk Takers" under the UK Prudential Regulation Authority Remuneration Code.

<sup>Note 15</sup> Remuneration refers to all remuneration payable to employees during the year with reference to their tenure as Senior Management and Key Personnel. The forms of variable remuneration and the proportion deferred are based on the seniority, role and responsibilities of employees and their level of total variable compensation. As the total number of Senior Management and Key Personnel involved is relatively small, to avoid individual figures being deduced from the disclosure, aggregate figures are disclosed in this section.

<sup>Note 16</sup> No deferred variable remuneration had been reduced through performance adjustments in 2018 and 2017. No Senior Management or Key Personnel has been awarded or paid guaranteed bonus and new sign-on during the years of 2018 and 2017. No Senior Management or Key Personnel has been awarded or paid for the termination of services in 2018. In 2017, a total payment of HK\$11,433,000 (Highest payment: HK\$8,368,000) in respect of the termination of services had been paid to two Senior Management, who were Directors, of the Bank.

The aggregate amount of deferred variable remuneration, split into (a) vested and paid during the year and (b) outstanding and unvested at the end of the year, is set out below:

Amount (HK\$ '000)	2018		2017	
	Awarded for Performance Year 2018	Awarded for Prior Performance Years	Awarded for Performance Year 2017	Awarded for Prior Performance Years
<b>Vested and paid out during the year<sup>Note 18</sup></b>				
Cash	–	9,148	–	7,577
Shares	–	25,173	–	24,465
<b>Outstanding and unvested at the end of the year<sup>Notes 17 &amp; 19</sup></b>				
Cash	10,447	17,452	7,422	18,409
Shares <sup>Note 20</sup>	13,884	37,929	9,993	52,648

<sup>Note 17</sup> Outstanding, unvested, deferred remuneration is exposed to ex post explicit adjustments via malus.

<sup>Note 18</sup> Paid and vested variable pay made to Material Risk Takers is subject to clawback.

<sup>Note 19</sup> There is no reduction of deferred remuneration and retained remuneration exposed due to ex post explicit adjustments during 2018 and 2017 via the application of malus and/or clawback.

<sup>Note 20</sup> Outstanding, unvested, deferred shares are exposed to ex post implicit adjustments. The total amount of amendments due to ex post implicit adjustments were -HK\$5,986,000 and +HK\$7,704,000 for 2018 and 2017 respectively. The total value of these shares was calculated based on the closing market share price of HSBC Holding plc (London) as at 31 December of the respective financial years. HSBC's share price was 15.6% lower as at 31 December 2018 when compared to that of 31 December 2017.

Other relevant remuneration disclosures are set out in Notes 14, 15 and 50(b) to the Bank's 2018 Financial Statements.

### Accountability and Audit

#### Financial Reporting

The Board aims at making a balanced, clear and comprehensive assessment of the Bank's performance, position and prospects. An annual operating plan is reviewed and approved by the Board on an annual basis. Reports on financial results, business performance and variances against the approved annual operating plan are made available to the Board for review and monitoring on a monthly basis.

Strategic planning cycles are generally from three to five years. The Bank's strategic plan for 2018 – 2020 was approved by the Board in November 2017. Progress of the implementation of the key initiatives in the strategic plan is reported to and reviewed by the Board and Executive Committee on a quarterly basis.

The annual and interim results of the Bank are announced in a timely manner within three months and two months respectively after the end of the relevant year or period.

The Directors acknowledge their responsibilities for preparing the accounts of the Bank. As at 31 December 2018, the Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Bank's ability to continue as a going concern. Accordingly, the Bank's Directors have prepared the financial statements of the Bank on a going-concern basis.

The responsibilities of the external auditor with respect to financial reporting are set out in the "Independent Auditor's Report" attached to the Bank's 2018 Financial Statements.

#### Internal Controls

##### System and Procedures

The Board is responsible for internal control of the Bank and its subsidiaries and for reviewing its effectiveness.

The Bank's internal control system comprises a well-established organisational structure and comprehensive policies and standards. Areas of responsibilities for each business and functional unit are clearly defined to ensure effective checks and balances.

Procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information used within the business or for publication. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud. Procedures have also been designed to ensure compliance with applicable laws, rules and regulations.

Systems and procedures are in place in the Bank to identify, control and report on the major types of risks the Bank encounters. Business and functional units are responsible for the assessment of individual types of risk arising under their areas of responsibilities, the management of the risks in accordance with risk management procedures and the reporting on risk management. The Bank maintains an effective risk management framework through the setting up of specialised management committees for the oversight and monitoring of major risk areas and the establishment of risk management departments under the relevant control functions of the Bank. Relevant risk management reports are submitted to Asset and Liability Management Committee, Risk Management Meeting, Executive Committee and Risk Committee, and ultimately to the Board for oversight and monitoring of the respective types of risk. The Bank's risk management policies and major control limits are approved by the Board or its delegated committees, and are monitored and reviewed regularly according to established policies and procedures.

More detailed discussion on the policies and procedures for management of each of the major types of risk the Bank encounters is set out in the sections "Risk Management" and "Capital Management" of the "Management Discussion and Analysis" in this Annual Report.

### Annual Assessment

A review of the effectiveness of the Bank's internal control system covering all material controls, including financial, operational, compliance, and risk management controls, is conducted annually. The review at the end of 2018 was conducted with reference to the COSO (The Committee of Sponsoring Organisations of the Treadway Commission) internal control framework, which assesses the Bank's internal control system against the five elements of control environment, risk assessment, control activities, information and communication, and monitoring. The review results have been reported to the Audit Committee, Risk Committee and the Board. The Board is satisfied that such system is effective and adequate. In addition, the Bank, through the Audit Committee, has also reviewed the adequacy of resources, qualifications and experience of staff of the Accounting and Financial Reporting functions, and their training programmes and budget.

### Framework for Disclosure of Inside Information

The Bank has put in place a robust framework for the disclosure of inside information in compliance with the Securities and Futures Ordinance. The framework sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner so as to allow all the stakeholders to apprehend the latest position of the Bank and its subsidiaries. The framework and its effectiveness are subject to review on a regular basis according to established procedures.

### Internal Audit

The primary role of the Internal Audit function is to help the Board and the Management to protect the assets, reputation and sustainability of the Bank. The Internal Audit function 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 the Management, is adequate.

The Bank has adopted a risk management and internal control structure, referred to as the "Three Lines of Defence", to ensure it achieves its commercial aims while meeting regulatory and legal requirements, and its responsibilities to shareholders, customers and staff. The Internal Audit function's role as the third line of defence is independent of the first and second lines of defence. The Bank's Head of Audit reports to the Chairman and the Audit Committee.

An Internal Audit Charter is reviewed and approved by the Audit Committee periodically which has detailed the purpose, authority, independence and objectivity, accountabilities and scope of work, and standards of audit practices to govern the work of the Internal Audit function. Further, the Internal Audit function also maintains a quality assurance and improvement programme that covers all aspects of internal audit activity, including conformance with The Institute of Internal Auditors' (IIA) Standards, applicable regulatory guidance and internal audit policies and procedures.

Results of audit work together with an assessment of the overall risk management and control framework are reported to the Audit Committee and the Risk Committee as appropriate. The Internal Audit function also reviews the Management's action plans in relation to audit findings and verifies the adequacy and effectiveness of the mitigating controls before formally closing the issue.

### External Auditor

PricewaterhouseCoopers is the Bank's external auditor. The Audit Committee is responsible for making recommendations to the Board on the appointment, re-appointment, removal and remuneration of the external auditor. The external auditor's independence and objectivity, and the effectiveness of the audit process are also reviewed and monitored by the Audit Committee on a regular basis.

During 2018, fees paid to the Bank's external auditor for audit services amounted to HK\$22.4 million, compared with HK\$20.6 million in 2017. For non-audit services, the fees paid to the Bank's external auditor amounted to HK\$8.5 million, compared with HK\$8.9 million in 2017. In 2018, the non-audit service assignments covered by these fees included the following:

Nature of service	Fees paid (HK\$ million)
Other assurance services	7.3
Tax services	1.2
	<hr/>
	8.5

### Audit Committee

The Audit Committee assists the Board in meeting its responsibilities for ensuring effective systems of internal control and compliance relating to financial reporting, and in meeting its financial reporting obligations.

### Risk Committee

The Risk Committee assists the Board in meeting its responsibilities for ensuring effective systems of risk management, internal control and compliance (other than that relating to financial reporting), in meeting its risk governance obligations. The Risk Committee also advises and assists the Board's review of the effectiveness of culture enhancement initiatives.

## Communication with Shareholders

### Effective Communication

The Bank attaches great importance to communication with shareholders. To this end, a number of means are used to promote greater understanding and dialogue with the investment community. The Bank holds group meetings with analysts in connection with the Bank's annual and interim results. The results announcements are also broadcast live via webcast. Apart from the above, designated senior executives maintain regular dialogue with institutional investors and analysts to keep them abreast of the Bank's development, subject to compliance with the applicable laws and regulations. Including the two results announcements, around a hundred meetings with analysts and fund managers were held in 2018. In addition, the Bank's Vice-Chairman and Chief Executive, and Chief Financial Officer also made presentations and held group meetings with investors at investor forums.

Further, the Bank's website ([www.hangseng.com](http://www.hangseng.com)) offers timely access to the Bank's financial information, announcements, circulars to shareholders and information on the Bank's corporate governance structure and practices. For efficient communication with shareholders and in the interest of environmental preservation, shareholders are encouraged to browse the Bank's corporate communications on the Bank's website, in the place of receiving printed copies of the same.

The AGM provides a useful forum for shareholders to exchange views with the Board. The Bank's Chairman, EDs, Chairmen of the Board Committees and NEDs are available at the AGM to answer questions from shareholders about the business and performance of the Bank. In addition, the Bank's external auditor is also invited to attend the AGM to answer questions about the conduct of the audit, and the preparation and contents of the auditor's report. Separate resolutions are proposed at general meetings for each substantial issue, including the re-election and election (as the case may be) of individual Directors. An explanation of the detailed procedures of conducting a poll will be provided to shareholders at the AGM, to ensure that shareholders are familiar with such procedures.

The Bank's last AGM was held on Thursday, 10 May 2018 at Hang Seng Bank Headquarters, 83 Des Voeux Road Central, Hong Kong. All the resolutions proposed at that meeting were approved by the shareholders by poll voting. Details of the poll results are available under the section "Investor Relations" of the Bank's website ([www.hangseng.com](http://www.hangseng.com)).

The next AGM will be held on Thursday, 9 May 2019, the notice of which will be sent to shareholders at least 20 clear business days before the said meeting. Shareholders may refer to the section "Corporate Information and Calendar" in this Annual Report for information on other important dates for shareholders in year 2019.

### Calling an Extraordinary General Meeting

Shareholder(s) holding not less than five percent of the total voting rights of all the members having a right to vote may request to call an Extraordinary General Meeting of the Bank.

The requisition (a) must state the general nature of the business to be dealt with at the meeting, (b) must be signed by the requisitioner(s), and (c) may either be deposited at the Bank's registered office at 83 Des Voeux Road Central, Hong Kong in hard copy form or sent by email to [egmrequisition@hangseng.com](mailto:egmrequisition@hangseng.com). If the resolution is to be proposed as a special resolution, the requisition should include the text of the resolution and specify the intention to propose the resolution as a special resolution. The requisition may consist of several documents in like form, each signed by one or more requisitioner(s).

The requisition must also state (a) the name(s) of the requisitionist(s), (b) the contact details of the requisitionist(s), and (c) the number of ordinary shares of the Bank held by the requisitionist(s).

The Directors must proceed to convene an Extraordinary General Meeting within 21 days from the date of receipt of the requisition. Such meeting should be held on a date not more than 28 days after the date on which the notice convening the meeting is given.

If the Directors fail to convene the Extraordinary General Meeting as aforesaid, the requisitionist(s), or any of them representing more than one-half of the total voting rights of all of them, may themselves convene the meeting. Any meeting so convened shall not be held after the expiration of three months from the date of the deposit of the requisition.

A meeting so convened by the requisitionist(s) shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Directors.

Any reasonable expenses incurred by the requisitionist(s) by reason of the failure of the Directors to convene a meeting shall be reimbursed to the requisitionist(s) by the Bank.

### **Putting Forward Proposals at General Meetings**

Shareholders representing at least 2.5 percent of the total voting rights of all the members having a right to vote, or, at least 50 shareholders who have a relevant right to vote, may:

- put forward proposal at general meeting
- circulate to other shareholders written statement with respect to matter to be dealt with or other business to be dealt with at general meeting

For further details on shareholder qualifications, and the procedures and timeline, in connection with the above, shareholders are kindly requested to refer to Sections 580 and 615 of the Companies Ordinance (Cap 622, Laws of Hong Kong).

Further, a shareholder may propose a person other than a retiring Director of the Bank for election as a Director of the Bank at a general meeting. For such purpose, the shareholder must send to the Bank's registered address (for the attention of the Bank's Company Secretary) a written notice which identifies the candidate and includes a notice in writing by that candidate of his/her willingness to be so elected. Such notice must be sent within the seven-day period commencing on the day after the despatch of the notice of the meeting, or such other period as may be determined by the Directors from time to time, and ending no later than seven days prior to the date appointed for such meeting. Procedures for shareholders to propose candidates for election as Director of the Bank are also available on the website of the Bank ([www.hangseng.com](http://www.hangseng.com)).

### **Putting Enquiries to the Board**

Shareholders may send their enquiries requiring the Board's attention to the Bank's Company Secretary at the Bank's registered address. Questions about the procedures for convening or putting forward proposals at an AGM or Extraordinary General Meeting may also be put to the Company Secretary by the same means.

### **Shareholders Communication Policy**

The Bank has established a Shareholders Communication Policy to set out the Bank's processes to provide shareholders and the investment community with ready, equal and timely information on the Bank for them to make informed assessments of the Bank's strategy, operations and financial performance, and to engage actively with the Bank. The said policy is available on the Bank's website ([www.hangseng.com](http://www.hangseng.com)).

## Material Related Party Transactions

### Material Related Party Transactions and Contracts of Significance

The Bank's material related party transactions are set out in Note 50 to the 2018 Financial Statements. These transactions include those that the Bank has entered into with its immediate holding company and its subsidiaries as well as its fellow subsidiary companies in the ordinary course of its interbank activities, including the acceptance and placement of interbank deposits, corresponding banking transactions, off-balance sheet transactions, and the provision of other banking and financial services.

The Bank uses the information technology services of, and shares an automated teller machine network with, The Hongkong and Shanghai Banking Corporation Limited, its immediate holding company. The Bank also shares information technology and certain processing services with fellow subsidiaries. In 2018, the Bank's share of the costs included HK\$594 million for system development, HK\$516 million for data processing, and HK\$298 million for administrative services.

The Bank maintains a staff retirement benefit scheme for which a fellow subsidiary company acts as trustee and the Bank's immediate holding company act as administrator. As part of its ordinary course of business with other financial institutions, the Bank also distributes retail investment funds for a fellow subsidiary with a fee income of HK\$75 million and markets Mandatory Provident Fund for its immediate holding company and a fellow subsidiary during the year 2018 with a fee income of HK\$111 million.

These transactions were entered into by the Bank in the ordinary and usual course of business on normal commercial terms, and in relation to those which constituted connected transactions under the Listing Rules, they also complied with applicable requirements under the Listing Rules. The Bank regards its usage of the information technology services of The Hongkong and Shanghai Banking Corporation Limited (amount of information technology services cost incurred for 2018: HK\$295 million) as contracts of significance for 2018.

### Continuing Connected Transactions

(a) On 21 June 2016, Hang Seng Insurance Company Limited ("HSIC"), a wholly-owned subsidiary of the Bank, entered into the following agreements:

- (i) A management services agreement ("Management Services Agreement") with HSBC Life (International) Limited ("INHK") for a term of three years, pursuant to which INHK, directly or through one or more of its affiliates, provides certain management services to HSIC.

INHK charged HSIC for the provision of the services on a fully absorbed cost basis plus a mark-up of 10% for actuarial and risk analytics services and a mark-up of 6% for all other services. These charges were determined following negotiation on an arm's length basis and in accordance with the policy of the HSBC Group, which took into account the transfer pricing guidelines of the Organisation for Economic Co-operation and Development.

- (ii) An investment management agreement ("Investment Management Agreement") with HSBC Global Asset Management (Hong Kong) Limited ("AMHK") for a term of three years, pursuant to which AMHK acts as investment manager in respect of certain of HSIC's assets held from time to time. AMHK has delegated to HSBC Alternative Investments Limited ("HAIL") the management of part of such assets by way of a bespoke portfolio.

HSIC paid to AMHK, on a quarterly basis, a fee of between 0.05% and 0.35% per annum of the mean value of the assets under management. HSIC also paid to HAIL a fee of not more than 0.5% per annum of the aggregate value of assets under management in a bespoke portfolio together with a performance fee of 10% per annum in respect of the amount by which the return of such portfolio exceeded a benchmark return of 8% per annum. The above fees were determined on an arm's length basis. Subject to the caps under the Investment Management Agreement not being exceeded, HSIC and AMHK may subsequently agree to vary the above fees.

(iii) A private equity investment management agreement ("PE Investment Management Agreement") with HAIL for a term of 11 years, pursuant to which HAIL acts as investment manager in respect of certain private equity fund investments made by HAIL on behalf of HSIC.

HSIC paid HAIL a fee of between 0.1% and 0.75% per annum of the aggregate value of assets under management as an annual retainer fee and an annual management fee on an aggregate basis. On top of the aforesaid, a performance fee of 15% carried interest will be paid if certain hurdle rates of return are achieved for HSIC in respect of the investments made in each year of the investment period under the PE Investment Management Agreement. The above fees have been determined on an arm's length basis.

Pursuant to the Listing Rules, the term of an agreement for a continuing connected transaction of a listed company must not exceed three years except in special circumstances. As the term of the PE Investment Management Agreement is 11 years, the Bank, in compliance with the Listing Rules requirement, appointed an independent financial adviser to explain why the PE Investment Management Agreement requires a term that is longer than three years and to confirm that it is normal business practice for investment management agreements relating to private equity investments to be of such duration. The explanation and confirmation by the independent financial adviser were set out in the Bank's announcement of 21 June 2016.

The Bank considered that due to the similarity of the services provided under the Investment Management Agreement, the PE Investment Management Agreement, and the fund monitoring agreement entered into between HSIC and HAIL on 12 December 2013 ("Previous Fund Monitoring Agreement"), the fees payable by HSIC under these three agreements should be aggregated for the purpose of the Listing Rules. The Previous Fund Monitoring Agreement, on a standalone basis, was a "de minimis" continuing connected transaction which was fully exempt from any reporting, announcement, shareholders' approval and annual review requirements under the Listing Rules.

Details of the terms of the Management Services Agreement, the Investment Management Agreement, the PE Investment Management Agreement and the Previous Fund Monitoring Agreement, and the relevant annual caps and fee caps were announced by the Bank on 21 June 2016.

(b) Upon expiry of the Previous Fund Monitoring Agreement, a new fund monitoring agreement ("Current Fund Monitoring Agreement") was entered into between HSIC and HAIL on 12 December 2016 for a term of three years, pursuant to which HAIL provides fund monitoring and reporting services for certain private equity investments made by HSIC. HSIC has agreed to pay HAIL a fee of 0.04% per annum on the aggregate USD commitments in such investments, which is the same as the Previous Fund Monitoring Agreement, subject to an annual cap of US\$75,000 (approximately HK\$585,000). The above fee was determined on an arm's length basis.

The Current Fund Monitoring Agreement, on a standalone basis, is a "de minimis" continuing connected transaction which is fully exempt from any reporting, announcement, shareholders' approval and annual review requirements under the Listing Rules. However, the Bank considers that the fee payable by HSIC under the Current Fund Monitoring Agreement should be aggregated with the Investment Management Agreement and the PE Investment Management Agreement for the purpose of the Listing Rules, and it is therefore subject to the annual review requirements under the Listing Rules together with those agreements.

INHK, AMHK and HAIL are all indirect wholly-owned subsidiaries of HSBC Group, the ultimate controlling shareholder of the Bank, and therefore are connected persons of the Bank. Accordingly, all the aforesaid agreements constituted continuing connected transactions of the Bank. The Bank has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## Corporate Governance Report

For the year ended 31 December 2018, the aggregate amount paid under the Management Services Agreement was HK\$75 million, whereas the aggregate amount paid under the Investment Management Agreement was HK\$31 million, both of which were within the annual caps for the year ended 31 December 2018 of HK\$247 million and HK\$110 million, respectively. The management fee of approximately US\$1,950,000 (equivalent to HK\$15,275,423) was payable under the PE Investment Management Agreement for the year ended 31 December 2018, which was within the annual cap on management fee of US\$2,000,000 (approximately HK\$15,500,000). No retainer fee nor performance fee was payable under the PE Investment Management Agreement for 2018. Further, for the year ended 31 December 2018, the aggregate amount paid under the Current Fund Monitoring Agreement was approximately US\$50,000 (equivalent to HK\$391,678), which was within the annual cap of US\$75,000 (equivalent to HK\$585,000).

In respect of all the aforesaid agreements which constituted the Bank's continuing connected transactions, all the INEDs of the Bank have reviewed the said transactions and confirmed that the said transactions have been entered into:

- (a) in the ordinary and usual course of business of the Bank and its subsidiaries;
- (b) on normal commercial terms or better; and
- (c) in accordance with the relevant agreements governing the same on terms that are fair and reasonable and in the interests of the shareholders of the Bank as a whole.

Further, the Bank engaged its external auditor to report on the continuing connected transactions of the Bank and its subsidiaries in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Directors confirmed that the external auditor had issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions set out in the preceding paragraphs in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Bank to The Stock Exchange of Hong Kong Limited.

## Culture

### Business Principles and Values

The Bank has a set of clear business principles and corporate values guiding staff to keep the highest standards of integrity as well as to comply with the spirit and letter of all laws and regulations when conducting business. "Courageous Integrity" is the guiding principle for staff to speak up and to do the right thing with no compromises to the ethical standards and integrity, and behave in a "Dependable, Open and Connected" way in everyday work. The Bank promotes staff awareness of and commitment to the corporate values, and empowers leaders and managers to drive values-aligned behaviour in the workplace.

Three values-aligned behaviours (Accountability, Good Judgment and Speaking Up) are identified to support effective financial crime risk management culture and good conduct outcomes. Ongoing management effort is made to embed the corporate values and good conduct through (a) tone from the top; (b) strengthening people management capability to build desired culture; and (c) incentivising and showcasing desired behaviours.

### Staff Code of Conduct

To ensure the Bank operates according to the highest standards of ethical conduct and professional competence, all staff are required to strictly follow the Staff Code of Conduct. With reference to applicable regulatory guidelines and other industry best practices, the Code sets out ethical standards and values to which all the Bank's staff are required to adhere and covers various legal, regulatory and ethical issues. Topics including, but not limited to, the prevention of bribery, use of information, insider dealing and personal dealings, personal benefits, outside directorships/employment, and equal opportunities policy, are covered in the Code.

The Bank uses various communication channels to periodically remind staff of the requirement to adhere to the rules and ethical standards set out in the Staff Code of Conduct.

## Avoidance of Conflicts of Interest

The Bank has set standards and established policies and procedures to manage actual or potential conflicts of interest of its staff. Robust organisational structure has been designed to ensure adequate segregation of duties and avoid conflicts of interest. Staff working in sensitive or high-risk areas are required to adhere to job-specific as well as staff dealing rules and undergo training on the avoidance of conflicts of interest in carrying out their duties.

## Human Resources

The human resources policies of the Bank are designed to attract people of the highest calibre and to motivate them to excel in their careers, as well as uphold the Bank's brand equity, corporate values and culture of service excellence.

### Employee Statistics

As at 31 December 2018, the Bank's total headcount was 10,298 representing an increase of 369, or +3.7%, compared with a year earlier. The total headcount comprised 2,903 executives, 4,699 officers and 2,696 clerical and non-clerical staff.

### Employee Remuneration

The quality and engagement of employees are fundamental to the Bank's success and the Bank aims to attract, motivate and retain the best people. The Bank's reward strategy supports this objective through rewarding those who are committed to maintaining a long-term career with the Bank with good sustainable performance.

The Remuneration Committee oversees the Bank's overall remuneration strategy and ensures all the reward policies are carefully considered in the context of business objective, people strategy, commercial competitiveness, alignment of risk and reward and regulatory guidance. The fundamental principles, philosophies and processes are documented in the Bank's remuneration policy.

The Bank adopts a Total Compensation Approach. In determining the total remuneration for employees, fixed and discretionary variable pay are considered together and differentiated by performance and adherence to corporate values. The Bank will make reference to individual's responsibility, capability and risk profile of the job to ensure appropriate balance between the fixed pay and variable pay.

Fixed pay is determined by taking into account relevant level and composition of pay in the markets in which the Bank operates. Salaries are reviewed in the context of business performance, individual potential and performance, market practice, internal relativities and regulatory requirements.

Bank-wide variable pay budgets are determined in consideration of the Bank's business performance, people strategy, risk appetite statement and risk metrics including conduct risks. This helps to ensure that the variable pay pool is shaped by risk considerations and the Bank's performance is sustainable in the long-term. The ex-ante risk adjustment of remuneration within the Bank is achieved in the way that the Risk Committee of the Bank will advise the Board and/or the Remuneration Committee, as appropriate, on the alignment of risk appetite with performance objectives set in the context of variable incentive and on whether any adjustments for risk need to be applied when considering performance objectives and actual performance. In addition, the overall variable pay funding proposal is refined with reference to the advice of Chief Financial Officer and Chief Risk Officer in respect of the Bank's financial position and performance against its risk appetite profile.

Variable pay plans takes into account a combination of corporate and/or business results as well as the individual's performance. They reward financial quantitative measures and non-financial qualitative measures including adherence to corporate values, management of risks, service standards, ethical behaviour and responsible selling. To embed a values-led, high performance culture, the variable pay plans are designed to recognise and reward positive behaviours while discourage negative behaviours that put the Bank under unnecessary financial, regulatory or reputational risk via the application of consequence management, malus and clawback policies.

Variable pay consists of deferred and non-deferred components in the forms of cash and share award. The Bank adopts a progressive deferral mechanism with higher deferral rates and different forms of deferral by reference to (a) the employee's seniority, role, responsibilities and the potential risks that their activities may create for the Bank; and (b) the total amount of variable remuneration exceeding the prescribed thresholds. The deferred award has a vesting period of three to seven years and is subject to malus and clawback.

The principles of the remuneration policy are applicable to the Bank and its subsidiaries, subject to the local legislative requirements and market practices, and are proportionate to the scope and complexity of the local business.

### Employee Engagement

The Bank aims to create a work environment that promotes employee engagement, champions diversity and inclusive culture, and empowers our employees to perform at their best by providing training, performance coaching and career development opportunities.

To foster an open and dynamic culture, employees are encouraged to engage in two-way communications with senior management and colleagues at all levels.

Information on the Bank's direction and strategies, policy updates and employment matters is conveyed to employees through business briefings, town hall meetings, intranet, morning broadcasts, circulars and e-mails. The Bank encourages employees to provide suggestions, comments and feedback through employee surveys, exchange sessions, thematic focus groups and other channels. The Bank also gauges the sentiments and behaviours of its staff to inform training, communication and staff engagement plans with the aim of facilitating staff embracing into the corporate culture.

An annual Bank-wide employee survey was conducted in Q2 2018. The results indicate that over 80% of employees are confident about the Bank's future. The level of trust between employees and senior leadership remains high. Employees are positive about the Bank's "speak-up" culture and close to 80% of employees say that they are proud to work at Hang Seng. Starting in 2019, Bank-wide employee surveys will be conducted on a bi-annual basis. Pulse surveys will be rolled out between these surveys to study issues of key strategic importance to the business.

### Growth and Development

The Bank is committed to ensuring the competence and ethical behaviour of staff members with due regard to the principles set out in HKMA's SPM CG-6 on "Competence and Ethical Behaviour". The Bank has established policies and procedures for monitoring, developing and maintaining the competence level and ethical behaviour of staff members. These include clear guidance as set out in various policy manuals, robust performance management system, training and development solutions provided on a regular and need basis.

In order to fully develop staff competence and potential and to help them quickly integrate into the Bank, new joiners are provided with a comprehensive induction programme that enhances their understanding of the Bank's history, vision, culture, values, risk management and corporate governance. To equip staff members with necessary skills and knowledge to meet future challenges and professional requirements, especially those who are involved in regulated businesses and activities, the Bank offers a wide range of training and development programmes in the areas of sales and relationship management, products, operations, compliance, credit and risk. Apart from these programmes, the Bank has a series of anti-money laundering, conduct, anti-bribery and corruption training programmes to strengthen the financial crime risk management culture. The Bank also offers Professional Study and Qualifications Programme to support staff members to pursue professional or academic qualifications. On average, the Bank's staff members received five days of training in 2018.

The Bank focuses on the development of leadership pipeline and supports the personal growth of staff by providing a broad range of leadership and management development solutions. To ensure sustainability, the Bank has strategies, measures and analytics to plan and manage succession to key roles, and to prepare high-potential talents for their succession to key roles. Businesses/functions supported by the Human Resources take actions to accelerate the development of successors and high potential talents through feedback and coaching, planned job moves for development including cross fertilisation between businesses/functions, and implementing individual development plans.

## Recruitment and Retention

Robust recruitment activities continued throughout 2018 to support the Bank's execution of the business strategy and to replace out-going staff, including front line sales, experienced professionals and specialists.

Young talents are developed through well-structured onboarding and development programmes. Trainee programmes in selected business areas are in place to develop professional competence and to build future talents for key roles. Staff engagement and retention focus on people managers' roles in everyday performance and development conversations with their staff, offer of career advancement opportunities and market competitive remuneration.

In addition, the Bank also participated in the first FinTech Internship programme co-launched by HKMA and the Applied Science and Technology Research Institute. The Bank sponsored 32 interns for six to twelve-month placements to support talent pipeline building for FinTech development in Hong Kong.

## Other Information

### Organisational Structure

Under the Bank's current organisational structure, the Bank's businesses and functions are set out as follows:

<b>Businesses</b>	<b>Functions</b>	
Retail Banking and Wealth Management	Audit	Human Resources
Commercial Banking	Communications	Legal
Global Banking	Company Secretarial Services	Marketing
Global Markets	Corporate Sustainability	Risk and Compliance
	Financial Control	HASE Operations, Services and Technology
	Financial Crime Compliance	Strategic Planning and Corporate Development

### Health and Safety

The Bank has a demonstrated commitment to occupational health and safety ("OH&S") in the workplace with employee engagement through committees, forums and working groups in the development of an OH&S Policy and Management System. By successfully implementing the certified BS OHSAS 18001:2007-compliant Safety Management System ("OHSMS"), the Bank marks its achievement to be the first bank world-wide to conform to this internationally acclaimed best practice aiming at reducing the exposure of the Bank's staff, contractors and customers to OH&S risks associated with its business activities at premises over which it has control. With the on-going implementation of OHSMS, the Bank not only demonstrates its commitment, but also proves that its OHSMS remains healthy and effective. As such, it allows the Bank to readily identify, monitor and control potential OH&S risks within the Bank premises and in turn to provide for a safer workplace environment for the Bank's staff and customers.

The Bank provides a range of training and activities to enhance the knowledge of its staff in OH&S, fire safety, manual operation, and office safety. A number of staff have acquired Qualified First Aider status so as to offer prompt assistance to their colleagues and customers in the event of a medical emergency or accident whilst awaiting the arrival of the ambulance. Some Qualified First Aiders have also been trained to operate the Automated External Defibrillators installed in the Bank premises.

The Bank implements a Contingency Plan for Communicable Disease, which sets out the key issues to be addressed and the actions to be taken by various units in response to the occurrence of a serious communicable disease, and the keeping of adequate stock of face masks to cater for the needs of its staff in response to an outbreak of influenza pandemic. Staff have been made aware through the Bank-wide intranet of the importance of personal hygiene and health, and the contingency measures to be adopted, to enable the Bank to continue with its services to the community during an outbreak of a serious communicable disease.

The Bank places strong importance on all aspects of health and safety and in maintaining workplace safety and comfort for its staff and customers. In year 2018, the Bank implemented the "Time to Appreciate Your Body" campaign that consisted of a series of activities, such as health and wellness related seminars, workshops and massage therapy sessions, all of which were aimed to acting as a wakeup call and to motivating staff to appreciate life and begin making the right changes in their lifestyle for the betterment of their physical and mental wellbeing. Towards the end of the year, the Bank also arranged a "Health and Safety Week" with various activities, such as health safety and fire safety seminars, fire safety exchange sessions, information booths promoting health safety and fire safety awareness to promote the theme "Be Healthy Be Safe" with an aim to potentially minimising work-related illnesses and injuries. The above programs and activities were well received by the Bank's staff.