

Board Statement & Chief Executive's Message

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To be carbon neutral in our operations by 2030 is key among the new environmental, social and governance ('ESG' hereinafter) targets that Hang Seng Bank ('Hang Seng' or 'the Bank' hereinafter) set in 2021. This commitment makes us the first local bank in Hong Kong to lay down a concrete roadmap towards carbon neutrality and we are pleased to report that good progress has already been made in 2021.

Over the last year, the Bank also implemented annual ESG key performance indicators (KPIs) and action plans that establish clear accountabilities for different business units and functions while encouraging Bank-wide action to embed ESG as a part of our corporate culture. To provide effective guidance and oversight, the Board of Directors ('the Board' hereinafter) set the Bank's ESG strategies and KPIs, and proactively monitored and oversaw its ESG performance through updates from the management team at least twice a year.

Among all ESG-related risks, the Bank considers those related to climate change to be a top and emerging risk. The acceleration of actions to strengthen our climate risk management capabilities in 2021 include formalising our climate risk management structure; organising climate risk training for the Board including identifying risks and opportunities associated with climate change and maintaining awareness about international agreements and national policies on climate change; and incorporating environmental considerations, such as climate risk, in the Bank's risk appetite for proactive monitoring and oversight.

Mitigating climate risks requires action along our entire value chain. To assist our customers transition to a low-carbon economy and achieve carbon neutrality, we are continuing to expand the diversity and range of our sustainable finance and investment product offerings to meet the different needs of customers. In 2021, we recorded strong growth in the total dollar amount of green loans approved by the Bank and in the sales volume of ESG investment products.

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Chief Executive's Message

Climate change and the COVID-19 pandemic have fundamentally changed the world of business and the way we work. The 26th United Nations Climate Change Conference of the Parties ('COP26') held in October 2021 not only led to global climate commitments, but also accelerated awareness of the pressing need to make sustainability an important consideration when making decisions at personal, business or national policy level. Meanwhile, the COVID-19 pandemic has created unprecedented public health challenges, imposing significant changes to the way we live and work.

We refreshed our corporate purpose and values in 2021 to help ensure we keep pace with new operating realities and continue to thrive in fast-moving market conditions.

Refreshing our purpose and values

Our refreshed purpose as an organisation is to **open up a world of opportunity**. We aim to achieve this by striving to become the preferred banking and financial services partner for customers in Hong Kong and the Greater Bay Area. On an operational level, our actions are guided by four redefined core values:

We value difference: Seeking out different perspectives

We succeed together: Collaborating across boundaries

We take responsibility: Holding ourselves accountable and taking the long view

We get it done: Moving at pace and making things happen

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To entrench these values in our corporate culture, members of the senior management team fronted a series of short videos to demonstrate how they embody the new values and share their personal insights and experiences with colleagues throughout the Bank.

More and better sustainable finance offerings

To facilitate the provision of a wider range of ESG-themed products and services, we established a new team in 2021 that focuses exclusively on developing sustainable financing solutions for business customers.

Recognising the market's growing interest in ESG investment, our subsidiary, Hang Seng Indexes Company, continued to develop new benchmarks and last year launched the HSI ESG Enhanced Index, which applies key ESG principles to its flagship blue-chip index, such as screening constituents for compliance with the United Nations Global Compact ('UNGC') Principles and whether they are involved in the manufacture or distribution of controversial products. Also launched in 2021, the HSI Low Carbon Index adjusts the weightings of Hang Seng Index constituents according to their carbon emissions intensity.

Altogether, Hang Seng Indexes Company has created 11 more ESG-related indexes since 2019, demonstrating a strong commitment to formulating different index products for those who seek to capture investment opportunities arising from the transition to a lower-carbon and greener economy.

Driven by the acceleration of our efforts to drive sustainable finance in Hong Kong, our sale of ESG investment products in 2021 recorded a growth of over 18 fold from 2020 figures to over HK\$1.7 billion.

Accelerating climate risk management

As a signatory to the Carbon Neutrality Partnership in support of the Hong Kong SAR Government's Climate Action Plan 2050, we put a comprehensive Climate Strategy in place to drive our corporate development during 2021. We also developed a Climate Change Management Roadmap that will direct our decision-making and actions for the next two years with a special emphasis on four key areas: governance, strategy, risk management, and metrics and targets.

Adapting to the physical and transition risks and opportunities associated with climate change, we established a Climate Risk Management Framework with policies for identifying and mitigating such risks. In particular, we incorporated climate risk considerations into our lending business. Since the first quarter of 2021, we have incorporated a transition risk questionnaire into annual credit reviews for customers that engage in climate-sensitive sectors and with whom we have large credit exposure.

In support of our goal to be carbon neutral in our operations by 2030, we undertook a HK\$54 million Bank-wide enhancement programme that aims to reduce our carbon emissions by over 380 metric tonnes per year through initiatives developed in reference to internationally-recognised standards.

We also stepped up efforts to support the development of renewable energy in order to reduce greenhouse gas emissions and conserve natural resources. In addition to purchasing 2,920MWh of renewable energy from local electricity providers in 2021, which is nearly nine times what we purchased in 2020, we installed solar panels at our Mong Kok office building with the capacity to generate over 60MWh of renewable energy each year.

As we move into our 89th year of operation, we continue to innovate with the objective of providing best-in-class, customer-centric banking services. The road ahead will bring new challenges, but we are ready and enthusiastic about continuing to be a leading driver of ESG in the local banking sector, helping to create better futures for our customers and the community.

Diana Cesar

Executive Director and Chief Executive
Hang Seng Bank