



Integrity, Conduct and Fairness



Managing Different Types of Risk

Compliance

Our credibility relies on our operational integrity and the transparency of the information we provide to our stakeholders. Upholding strong corporate governance, adherence to the highest ethical standards and effective risk management are essential to being an accountable, transparent and well-managed company. Compliance issues are discussed and reviewed by the Board and management committees. To promote our long-term sustainability and success, the Board provides forward-thinking leadership within a framework of prudent and effective controls. We are dedicated to quality, professionalism and integrity throughout our businesses. Internal controls, risk management, compliance, and legal and regulatory requirements are considered at our Board meetings.

In 2023, our Directors and employees undertook various types of training on values and conduct. These covered, among other topics, health, safety and well-being, risk management, cybersecurity and sustainability, anti-bribery and corruption, anti-money laundering, terrorist financing, sanctions, fraud and tax transparency. Such Group-wide trainings are provided from time to time to our Directors, senior leaders and employees, where appropriate. We also require all of our employees to comply with the relevant codes of conduct. For details, please refer to the 'Staff Code of Conduct and Staff Awareness' section.

Our Non-Executive Directors ('NEDs') attended annual NED Summits in May 2023. The topics of the summits covered, among others, sustainability, digital experience, opportunities

and risks with generative artificial intelligence, diversity and inclusion, macro-economic focus, technology, risk framework and risk culture, and financial results and strategy updates.

Our Directors also received Board trainings on: (a) AI and ChatGPT and geographic insights relating to the economy of Hong Kong and mainland China in July 2023; (b) financed emissions and decarbonisation solutions, as well as the future banking service concept in September 2023; and (c) climate-related global and regional developments in November 2023.

In addition, our Directors received training through reading materials covering legal and regulatory compliance, corporate governance and financial reports, as well as economic and industry news and updates in 2023.

Supported by our Compliance function, we perform horizon scanning for the regulatory developments issued by Hong Kong's financial regulators, including the HKMA, SFC, Insurance Authority and the Mandatory Provident Fund Schemes Authority, and other authorities. These include laws and regulations, circulars, codes, guidelines, consultations and consultation conclusions.

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

The Audit Committee reviews our financial reporting, nature and scope of audit reviews, effectiveness of the internal control systems and compliance relating to financial reporting, and the operation and effectiveness of our whistleblowing policies and procedures.



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The results of the 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 reviews management action plans in relation to the audit findings, and verifies the adequacy and effectiveness of the remediated controls, before formally closing the issue.

Financial Crime

We are dedicated to protecting the financial system on which millions of people depend. As a result, we are dedicated to doing business only with customers who meet our strict standards, and we have ended customer relationships where we assessed to be outside of our risk appetite. At the same time, we continue to invest in expertise, partnerships and systems.

As threats to the global financial system grow, we will continue to adapt our approach to stay one step ahead. Over the coming years, we aim to make a step change in our effectiveness in fighting financial crime through intelligence-led financial crime risk management.

We have built a dedicated team of financial crime specialists, and we encourage our employees to speak up when something does not look right. Our team of specialists has been significantly strengthened over the recent years. Our dedicated Risk and Compliance function, led by senior experienced personnel, brings together all areas of financial crime risk management within the Bank.



Working in partnership is vital to understand and tackle the problems associated with financial crime. Based on this understanding, we are building relationships with law enforcement agencies and other banks.

Over recent years, we have substantially improved our IT infrastructure and invested in new and upgraded systems, in order to strengthen our capability in identifying and assessing financial crime risk.

We are strengthening our defence against fraud. The global fraud landscape is characterised by increasingly sophisticated attacks targeting online banking and other digital services.

Under our multi-year Fraud Transformation Programme, we are investing in training our people, as well as enhancing our technology-based defences.

We are constantly aiming to improve the ways in which we detect and prevent financial crime, and we are actively exploring technologies that can help us build on our existing capabilities. Fighting financial crime is a key area that can benefit from innovation, and we are working with and investing in a number of FinTech companies that can help us achieve our desired results.



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We partner with local regulator and police to proactively tackle financial crime. Designated police hotlines are available for our staff to report instances of suspected fraud and forgery, in order to protect our customers from suffering financial losses. A designated email list is also provided for the police to share the latest fraud intelligence with selected branches.

Financial crime risk-related issues and progress are updated regularly and on a thematic basis to the relevant senior management governance committees, including the Executive Committee, Risk Management Meeting and the Risk Committee.

In 2023, no judgements were entered against the Bank for failing to fight financial crime.

Training for All Employees

The standards we uphold stipulate that the Bank must operate its businesses ethically, honestly and with full accountability, in a consistent manner. We also ensure that our staff are well-informed and vigilant in the detection and prevention of illicit and illegal activities, such as bribery and corruption, money laundering, sanctions and insider trading. All our employees are required to complete a learning programme on these subjects.

In 2023, training on topics of bribery and corruption, money laundering and sanctions, conduct, values and regulations to our employees in Hong Kong

 **>17,000
hours**

Training for High-Risk Roles in AML and Sanctions

Staff who work in high-risk roles also receive additional, specialised learning regarding the detection and deterrence of financial crime.

Anti-Bribery and Corruption

We operate a zero tolerance approach to bribery and corruption, and consider such activities to be unethical and contrary to good corporate governance. Our staff and associated persons are prohibited from engaging in bribery and corruption.

Our Anti-Bribery and Corruption Policy sets out the key principles and minimum control requirements that enable our bank to mitigate bribery and corruption risks and comply

with all laws and regulations, including the UK Bribery Act, US Foreign Corrupt Practices Act, Hong Kong Prevention of Bribery Ordinance and France's Loi Sapin II, as well as other similar laws and regulations in the countries where we operate.

In the past five years, we made no contributions in any form to lobbyists, trade unions, or political organisations and campaigns.

We are dedicated to maintaining high ethical standards. Our policies on anti-money laundering, sanctions, and anti-bribery and corruption are aimed at ensuring that the risks identified by the Bank are appropriately mitigated.

For our policies on money laundering, bribery, corruption and sanctions, please refer to <https://www.hsbc.com/who-we-are/esg-and-responsible-business/fighting-financial-crime/financial-crime-risk-policies>.

Our suppliers are required to agree to comply with the Supplier Code of Conduct when they are invited to take part in a proposal or tendering, and when signing an agreement. This reminds the suppliers of the importance of our commitment to anti-bribery and anti-corruption.

In 2023, there were no confirmed incidents where contracts with our business partners were terminated or not renewed due to violations related to corruption.



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Anti-corruption training is mandatory for all employees in Hong Kong.

Anti-corruption training hours provided in 2023

>900 hours

Anti-corruption training hours delivered to current Directors in 2023

11 hours

Percentage of current Directors that received anti-corruption training in 2023

100%

Finance and Tax Risks

We principally operate and pay taxes in Hong Kong where the statutory profits tax rate is 16.5%. Our average Effective Tax Rate ('ETR') is 11.5%.

Factors	Detail description	Effects on the ETR
Non-taxable income	Mainly income from tax-exempt debt instruments (e.g. government bonds)	-4.4%
Non-deductible expenses	Various non-deductible small items	+0.1%
Others	Mainly tax deduction on Additional Tier 1 capital instruments	-0.7%
Share of losses/(profits) of associates	Exclusion of the tax effect of our share of net losses/(profits) from its associates	-0.1%
Different tax rates in other countries/areas	Differential in the statutory tax rates between higher tax jurisdictions where we also operate and Hong Kong (e.g. Mainland China where the statutory tax rate equals to 25%)	+0.1%

Note: The data in above table covers the Hang Seng Group, including Hang Seng and all its subsidiaries.

We manage our tax risks based on a formal management framework. We have adopted initiatives that increase our transparency, such as the US Foreign Account Tax Compliance Act and the OECD Common Reporting Standard.

We do not use tax avoidance structures or strategies, such as artificially diverting profits to low tax jurisdictions. We principally operate and pay taxes in Hong Kong, and we are dedicated to complying with the spirit and the letter of the tax law in all territories and countries in which we operate, and to maintaining an open and transparent relationship with the tax authorities. Relevant financial information is disclosed in our Annual Report 2023. As a member of the HSBC Group, we also follow the HSBC Group's tax policies and principles.

Competition

Our Legal function is tasked with providing policies, guidance and training modules to help our businesses and functions understand and conduct their business, in compliance with the spirit and letter of Hong Kong's Competition Ordinance. This complements our ongoing training, in which staff learn about the essential elements of the competition law and how they apply to our businesses.

In 2023, no judgements were entered against the Bank for breaching the Competition Ordinance.



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Staff Code of Conduct and Staff Awareness

The Bank's Staff Code of Conduct ('the Code') sets out the values, standards and general requirements that the Bank expects from all employees and contractors. It provides information, guidance, rules and regulations according to local and regulatory requirements.

All new joiners are required to read the Code and complete an online curriculum to ensure their understanding of the rules and regulations set out in the Code.

We provide learning programmes on the different behaviour standards outlined in the Code. Employees are required to complete the learning programmes based on their roles.

The Bank's Staff Code of Conduct is available on our employee self-service portal in English and Chinese.

The Code is reviewed on an annual basis, and as and when required, to reflect the latest regulatory requirements and the Bank's internal policies. Any changes to the Code are submitted to the Executive Committee for review and approval.

Bank-wide circulars are issued from time to time to remind all employees and contractors to read and abide by the latest changes to the Code, as well as its rules and regulations.

All employees and contractors are required to complete an online curriculum to ensure their understanding of the rules and regulations set out in the Code.

In 2023, there were no identified material cases of non-adherence to our internal Staff Code of Conduct that involved regulatory compliance. Apart from reporting to the relevant regulator(s) where appropriate, the Bank has been proactive in undertaking consequence management, depending on the severity level of the cases.

Equal Opportunities and Non-Discrimination

We are dedicated to providing an inclusive culture. Our people managers are expected to create and foster a strong speak-up culture in their teams, where our staff can be confident that their views matter, that their workplace is free from bias, discrimination and harassment, and that their careers advance based on merit. We uphold diversity and inclusion during our hiring process. Our recruitment process is merit-based and free from bias and discrimination.

To strengthen our people management capabilities and cultivate our inclusive culture, we provide training to our people managers. We have designed regular workshops with case studies in an effort to combat workplace bullying and discrimination, while promoting the concept of diversity. To support our people managers in leading high-performing teams with the best practices and managing ambiguities and challenging situations while working virtually, we offer a theme-based people management workshop for our experienced managers to learn how to address on-the-job challenges.





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We believe that a diverse and inclusive workforce is critical to running a sustainable and successful business, and we aim to harness the benefits of having diverse teams to drive greater innovation, enhance collaboration and improve workforce agility.

Our culture values, respects and supports individuals, where the richness of their ideas, backgrounds, styles and perspectives are actively sought out with an informed empathy to create business value.

With our internal Diversity and Inclusion Policy (which is set out in the Code) and Equal Opportunities Policy, we expect all members of our teams to treat each other with dignity and respect by creating an inclusive environment free from discrimination, harassment, victimisation, vilification or bullying on the grounds of age, colour, disability, ethnic or national origin, gender, gender identity/expression, marital status, pregnancy, race, religion or belief, and sexual orientation, etc. We comply with the Sex Discrimination Ordinance, Race Discrimination Ordinance, Disability Discrimination Ordinance and the Family Status Discrimination Ordinance.

Conflicts of Interest

Personal conflicts of interest are managed by our well-established mechanism, which includes pre-approvals, control measures and segregation of duties. Relevant requirements are specified in the HSBC Group's Non-Financial Risk policies and Staff Code of Conduct. Regular reviews are also conducted to manage emerging conflicts of interest.

Employees working in sensitive or high-risk areas are required to adhere to specific rules and undergo training on how to avoid conflicts of interest.

Whistleblowing

We foster a 'speak up' culture. Employees are encouraged to report wrongdoings, misconduct and unethical behaviours, while we support employees to raise concerns without fear of reprisal or retaliation by providing a number of 'speak up' channels, including reporting to a manager, escalation to HR, and Financial Crime Unusual Activity Report platform, etc.

We recognise that, at times, individuals may not feel comfortable speaking up through the usual channels. HSBC Confidential, a whistleblowing channel, is open to all colleagues to raise concerns about wrongdoing or unethical behaviour. The Bank's policy is that staff and others should be able to raise matters of concern confidentially and anonymously. We take appropriate steps to maintain the confidentiality of whistleblowers and adhere to the HSBC

Group's Whistleblowing Policy. The HSBC Confidential channel is a platform designed to promote consistency across controls, investigation, reporting, oversight and governance of all whistleblowing activities. The platform is accessible through our 24/7 hotline and online portal, in multiple languages managed by an independent third party. Employees can raise concerns confidentially by making an anonymous report, if they are not comfortable with disclosing their identities. All cases reported are treated confidentially, as far as possible. All whistleblowing cases are investigated by subject matter experts, in accordance with the HSBC Group policies and standards.

We make every effort to ensure that employees can raise concerns confidentially, without fear of repercussion. Retaliation against whistleblowers is not tolerated.

A set of well-established employee grievance procedures is in place, as we endeavour to ensure that investigations are carried out objectively on the basis of the information provided and that necessary actions can be taken based on the results of the investigations.

Our whistleblowing channels are stated in the HSBC Group's Global Procurement Handbook. Suppliers can express their concerns via this email [hsbc.vendor.concerns@hsbc.com].

There were 53 new whistleblowing cases reported in 2023, of which 29 cases were closed within the same year.



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Business Continuity Planning

Business Continuity and Incident Management procedures are formulated with reference to the HSBC Group's guidelines and the Bank's own circumstances. Our Business Continuity Planning Procedure, Pandemic Guidelines and Major Incident Management Plan are reviewed and updated on a regular basis, or when lessons are learned from actual incidents, to provide clear guidance to our business units and functions on how to manage the contingent risks. The Bank's Business Resilience Steering Group consists of senior management representatives and is chaired by the Chief Operating Officer to provide guidance and to ensure governance of the Bank's Business Continuity Management, with meetings held four times per year.

The Bank's businesses and functions have documented Business Continuity Plans to ensure the continuity of critical operations and functions in emergency situations, and relevant drill exercises are conducted at least yearly. These plans have addressed interruptive situations caused by increasing environmental and climate changes, and ultimately make our operations more resilient.

Responsible Value Chain

We have included sustainability risk assessments in our standard credit evaluations. In these assessments, we engage with our customers and evaluate their climate-related risks and opportunities in a low-carbon economy.

Responsible Financing

We implement sustainability risk policies as part of our broader reputational risk framework. We focus on sensitive sectors that may have a high adverse impact on people or the environment. A key area of focus is high-carbon sectors, which include oil and gas, power generation, metals and mining, agricultural commodities and forestry.

These policies define our appetite for business in these sectors and our aim to encourage customers to meet good international standards of practice. In case where our customers cannot fully align with our policies, we will only provide finance to

them if we can confirm that they are managing the relevant risks responsibly. Such customers are subject to greater due diligence and generally require additional approval from sustainability risk specialists.

Our business units conduct regular sustainability risk assessments for all new and existing customers in sensitive sectors. We communicate with our customers and assess their level of preparedness to the changes in their business environment, which are driven by the transition to a low-carbon economy and the impact of climate change.

Case Study

Major Incident Group



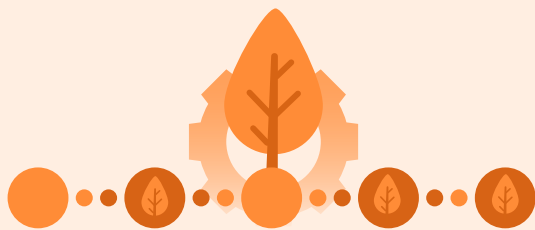
The Major Incident Group ('MIG') continues to lead and monitor our contingency plans, and steers appropriate decisions for any crisis and emergency situations that the Bank faces. Training and simulation exercises have been conducted with the MIG members to keep them abreast of the activation mechanism and of emerging threats such as cyberattacks.



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Supply Chain Integrity

We dedicate ourselves to contributing to the HSBC Group's ambition of achieving net zero by 2050, while we aim to reduce the carbon emissions from our own operations by 2030. We aim to meet our goals by taking the following ESG actions:



1. Implementing a sustainable procurement policy.
2. Encouraging, supporting and enabling our suppliers in their carbon emission disclosures, targets and achievements.
3. Setting a baseline to measure the diversity of our supply chain, in terms of the spending amount and volume, against specified targets through a supplier diversity programme.
4. Establishing due diligence processes to identify and monitor the broad ESG risk, while improving the Code of Conduct compliance and reporting.

Our sustainable procurement policy was implemented on 30 March 2023, with a focus on the ESG requirements for our contracted suppliers. We also hosted one roadshow to introduce the new policy to all our suppliers in March 2023.

It is mandatory for our suppliers to comply with our Code of Conduct before signing any agreements or submitting any proposals. The Supplier Code of Conduct sets out the standards for a supplier's commitment to carbon emission reductions, being a responsible consumer, respecting and upholding human rights, diversity and inclusion, good business conduct and operating an effective governance system for compliance purposes.

For financial products and services, we work with reputable third party suppliers who have demonstrably high corporate standards. Rigorous assessments ensure any investment or insurance solutions that we offer meet the regulatory requirements and our own standards. We conduct regular reviews to ensure that service providers and their products meet the terms of our agreements. For instance, our investment manager and indexes company (HSVM and HSIL) are both registered as UNPRI signatories.

96.9% of our active suppliers are local suppliers, while the rest are from other parts of Asia, Europe and the United States (active suppliers are defined as those with purchase orders in the last 15 months).

Diversity and inclusion are integral elements of our culture, and they have been incorporated in our Procurement Policy and Supplier Code of Conduct.

Contractor Partnerships

Our sustainable procurement policy, which stipulates our requirements and standards in relation to sustainability, was updated in 2023. The policy describes how our vendors are selected in a sustainable procurement process and highlights the importance of compliance to our Code of Conduct for our contracted vendors.

In addition, our third party risk management policy provides us with guidelines on the use of Archer, a global system for the managing, assessing and monitoring of third party (supplier) risks, which allows us to ensure overall third party compliance.

Inherent risks and residual risks are assessed, with the related actions identified, by our third party risk management team.

We work with the HSBC Group to measure our suppliers' carbon-related performance in the Carbon Disclosure Project Programme.

We also keep track of our suppliers' reputation risks and ESG scores on a monthly basis, which allows us to monitor our suppliers' reputation and be aware of any resulting potential risks to us.