



Setting High Standards of Governance



Corporate Governance Framework

As of 31 December 2023, the Board was comprised of 11 Directors, of whom two are Executive Directors ('EDs') and nine are Non-Executive Directors ('NEDs'). Among the nine NEDs, seven are Independent Non-Executive Directors ('INEDs'). There is a strong independent element on the Board, which ensures 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 governance structure, oversight of compliance, and the frequency of meetings of the Board, Audit Committee, Risk Committee, Nomination Committee and Remuneration

Committee are set out in the Corporate Governance Report of the Annual Report 2023. The Board and Nomination Committee is comprised of EDs and NEDs, while all the members of the Audit, Risk and Remuneration Committees are INEDs.

A minimum time commitment of 75 hours per year for a NED is set out in the letter of appointment, which the NED must sign and acknowledge. Furthermore, pursuant to the HKMA Guidelines (Supervisory Policy Manual on Corporate Governance of Locally Incorporated Authorised Institutions ('CG-1')), the Bank's Directors are expected to attend all meetings of the Board and any Committees in which they act as Chairmen or members, especially in cases where major issues are to be discussed. In addition, pursuant to the

conflicts of interest policy adopted by the Board, NEDs should consult with the Bank's Chairman or the Company Secretary when they are considering whether to accept any additional or changed commitments. In deciding whether to allow the NED to take up the additional or changed commitment, factors including the time commitment are taken into account.

The attendance records of the Board and Board Committee meetings will be set out in the Corporate Governance Report of the Annual Report 2023.

Board:

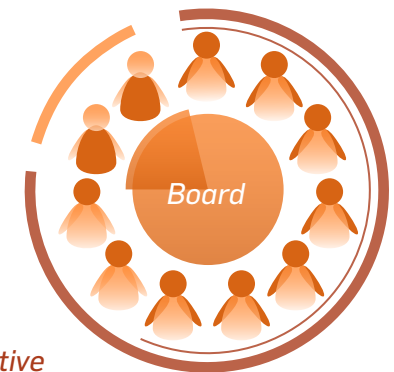
11 Directors

as of 31 December 2023

2 Executive Directors

9 Non-Executive Directors

of which 7 are Independent Non-Executive Directors





Setting High Standards of Governance

Risk Management Framework

Managing risk is a core part of our day-to-day activities. We protect our operations against compliance risks, and have a strong, transparent corporate governance. Our risk governance forums hold regular meetings to ensure our governance and control framework is properly discharged, managed, sustained and communicated. Please refer to our Annual Report 2023 to learn more about our bank-wide approach to risk.

Three Lines of Defence Model

We use three lines of defence to define the roles and responsibilities within the Bank. The activity-based model delineates the accountabilities and responsibilities for risk

management and the control environment within each line of defence. The model applies to all individuals and all risk types, and supports the delivery of conduct outcomes.

A clear segregation between risk ownership (the first line of defence), risk oversight and stewardship (the second line of defence) and independent assurance (the third line of defence) is essential to help support the effective identification, assessment, management and reporting of risks. It is our activities, not our job titles, which determine where we sit in the three lines of defence model.

Global Functions may have responsibilities across both the first and second lines of defence, and therefore these responsibilities must be segregated across teams. At an

appropriate level of seniority (normally at the executive committee member level or their direct reports), a single individual may have responsibilities across the first and second lines of defence. However, any such dual accountability cannot create unmanageable conflicts for the responsible person, particularly if they have regulatory accountability.

Risk appetite is defined as the level and types of risks that we are willing to take in order to achieve our strategic objectives. The risk appetite is articulated through the Risk Appetite Statement ('RAS'), which consists of qualitative statements and quantitative metrics covering the financial and non-financial risks with the defined risk appetite and tolerance thresholds. Our RAS is approved by the Board and is subject to a biannual review and regular monitoring.

Risk reporting enables the Bank's senior management and stakeholders to make informed decisions by providing insightful analyse from accurate and timely data together with subject matter expert perspectives from across the three lines of defence. Risk reporting helps the senior management understand what the top risks are and if they are being managed within our risk appetite. It also provides visibility of common themes and systemic issues across the organisation, which enables us to manage our risks more proactively and effectively.

Internal Audit is the third line of defence. It provides an 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.



Risk Ownership (the first line of defence)

- owns the risks
- is responsible for identifying, recording, reporting and managing the risks in line with risk appetite
- ensures that the right controls and assessments are in place to mitigate the risks



Risk Oversight and Stewardship (the second line of defence)

- sets the policy and guidelines for managing specific risk areas
- provides advice and guidance in relation to the risk
- challenges the first line of defence on effective risk management



Independent Assurance (the third line of defence)

- provides independent assurance that our risk management, governance and internal control processes are designed and operating effectively