

True to our Roots

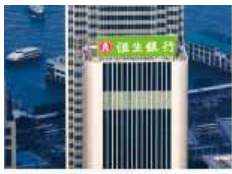


HANG SENG BANK



80 Years of
Service Excellence





Our Report



Report Profile

The Hang Seng Bank Corporate Responsibility Report (Report) provides information on Hang Seng Bank's principles and actions as a corporate citizen operating in the financial sector and its relationships with major stakeholders.

This Report describes the Bank's efforts to support the principles of sustainable development during the calendar year of 2012. The Report focuses on the economic, environmental and social issues that contribute to the sustainability of Hang Seng and that are of interest to stakeholders. The Report supplements the 'Corporate Responsibility' section of the Bank's 2012 Annual Report.

Report Scope

The content of this Report was defined after taking into account the materiality of sustainability issues arising from Hang Seng's operations in Hong Kong.

Data measurement techniques and the basis of calculations are explained next to the data tables. Financial data is extracted from or compiled based on the Bank's audited annual accounts for the year ended 31 December 2012.

There are no significant changes from the previous reporting period in terms of scope, boundary or measurement methods of the Report. Where there has been any restatement of information provided in previous Reports, reasons for such restatement are provided.

Reporting Period

Financial accounts data are for the financial year 1 January 2012 to 31 December 2012. Other information covers the same period unless otherwise stated.

Report Coverage

This Report covers Hang Seng's Hong Kong operations, unless otherwise stated. Hang Seng's mainland China business operations are excluded. The Report covers operations that are under Hang Seng's direct control and provides information on the Bank's efforts to have a positive influence on the sustainability awareness and activities of its employees, customers, suppliers, business partners and the wider community.

Reporting Guidelines

Financial and corporate data included in this year's Report are directly comparable with data from the Bank's 2011 Report unless otherwise stated. The Report has been compiled with reference to the internationally recognised Global Reporting Initiative (GRI G3.1) sustainability reporting guidelines.

Assurance

This Report has been independently verified and has achieved a GRI application level of A+. Click [here](#) for the assurance statement issued by the verifier.

Contact Us

Collection of data for this Report has been coordinated by the Bank's CSR Sustainers through consultation with relevant teams and individuals. Hang Seng has published an annual online Report since 2006. Hang Seng's last Report was published in April 2012.

Archived Reports are available on the Hang Seng Bank website.
(<http://bank.hangseng.com/1/2/about-us/corporate-responsibility>)

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We value your [feedback](#) on our CR reporting.



Chief Executive's Message



On March 3 1933, the first customers of Hang Seng – a small money-changing shop in Sheung Wan district – were greeted as honoured guests. Eighty years on, our continuing commitment to our founding principles and serving the community has seen us grow to become one of the 50 largest listed banks in the world. As a responsible corporate citizen, we aim to lead by example in supporting sustainable development as we strive to achieve excellence in the things we do.

Our annual Corporate Responsibility (CR) Report provides information on our sustainability initiatives and best practices.

We were the first local bank in Hong Kong to employ the internationally recognised Global Reporting Initiative (GRI) sustainability reporting guidelines, beginning with our 2010 CR Report. For 2012, I am pleased to inform you that we have achieved an A+ rating – the highest accreditation available – for the second consecutive year.

Other achievements in 2012 include being the only Hong Kong company named among the 'Global 100 Most Sustainable Corporations in the World' by Corporate Knights, contributing more than 25,000 hours in volunteer service and reaching out to over 280,000 young people through 150 Bank-supported education programmes and workshops.

Partnering with The Conservancy Association since 2007, the Hang Seng Yunnan Biogas Project earned us a Gold Award for community relations at the China International Public Relations Association's 10th China Golden Awards for Excellence in Public Relations.

Reflecting our strong ties to our local community, we maintain long-term relationships with organisations which share our commitment to social and environmental enhancement, including The Community Chest of Hong Kong, which has been our close partner for 25 years.

We are also committed to building strong relationships with our internal stakeholders. Our efforts to support the professional and personal development of our staff saw us recognised as Hong Kong's most attractive employer in the banking and financial services sector and Hong Kong's fourth most attractive employer overall in the 2013 Randstad Award.

With global macroeconomic uncertainties continuing to create challenges for business, sustainable practices are playing an increasingly important role in the performance and perception of companies in Hong Kong and beyond. True to our roots, we will continue to champion service excellence and work hand-in-hand with stakeholders as we live up to our name as the 'ever-growing' bank.

Rose Lee
Vice-Chairman and Chief Executive
May 2013





Our Values

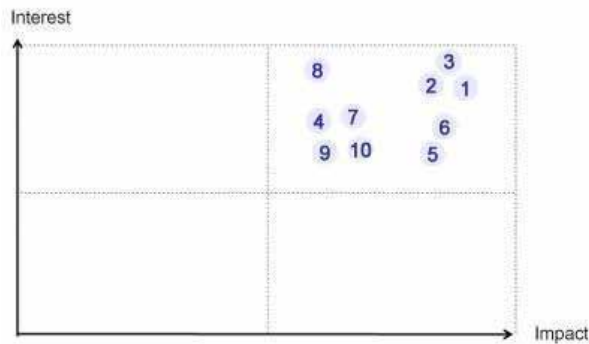


- > Stakeholder Engagement
- > Continuous Improvement
- > Hang Seng's CR Matrix

Upholding high standards of corporate responsibility is a vital part of our strategy for sustainable growth and has played a key role in our development to become the leading domestic bank in Hong Kong.

Managing sustainability issues requires balancing a diverse range of views and expectations but, simply stated, we strive for sustainable growth based on performing better every day for customers, colleagues and the community by emphasising service excellence in everything we do.

Materiality Diagram



Hang Seng is committed to leading by example in supporting sustainable development as we strive to achieve international standards in the things we do.

Our definition of success is to be a profitable, growing business by exceeding the expectations of our stakeholders through service excellence based on core values that include integrity, innovation and financial strength.

Such success is best achieved by maintaining a central emphasis on responsible corporate practices throughout our operations (see box: Hang Seng's CR Matrix) and finding new and more effective ways to engage our customers, colleagues and local communities. How we do business is as important as what we do in continuing to refine our strategy for long-term growth.

This holistic approach supports good risk management, helps us pinpoint areas in which we can enhance efficiency and generates new business opportunities. It also offers us a competitive advantage as stakeholders increasingly focus on the social and environmental – as well as economic – performance of companies in the financial services industry.

Stakeholder Engagement

We use a variety of top-down and bottom-up approaches to openly, actively and effectively engage with our stakeholders, who include customers, staff, shareholders, suppliers and business partners, regulators and the broader community.

In striving for a participatory process we aim to better manage risk, maintain our market leadership through the early identification of and response to emerging trends, and strike a good balance in addressing a diverse range of expectations, views and objectives, with the overarching goal of optimising long-term outcomes for our business and our stakeholders.

Key Stakeholders	Primary Methods of Engagement
1. Customers	<ul style="list-style-type: none"> • customer satisfaction surveys • relationship manager visits
2. Shareholders	<ul style="list-style-type: none"> • financial reports • shareholders' notices • Annual General Meeting
3. Employees	<ul style="list-style-type: none"> • staff opinion surveys • focus groups • meetings/ interviews • performance assessments • volunteer activities
4. Analysts	<ul style="list-style-type: none"> • results announcements • senior management meetings • interviews with CFO, economists and analysts
5. Business partners	<ul style="list-style-type: none"> • reports • meetings • visits
6. Regulators	<ul style="list-style-type: none"> • meetings • compliance reporting
7. Media	<ul style="list-style-type: none"> • media briefings • press materials • senior management interviews • results announcements
8. NGOs	<ul style="list-style-type: none"> • volunteer activities • sponsorships and donations • meetings • CSR forums
9. Professional bodies	<ul style="list-style-type: none"> • meetings • visits • memberships
10. Suppliers	<ul style="list-style-type: none"> • vendor management processes

Continuous Improvement

Good corporate citizenship is not a static goal, but an ongoing process that requires monitoring, maintenance and a willingness to strive for continual improvement. We have worked hard to bring our sustainability reporting in line with the internationally recognised GRI guidelines – enabling us to evaluate our progress in a standardised manner and benchmark our performance against large listed corporations in Hong Kong and leading financial institutions around the world.

In addition to GRI requirements, the content and structure of our 2012 Report reflects a number of other factors, including:

- Issues identified through the CSR Sustainers workshop
- Issues arising from stakeholder engagement initiatives
- Issues commonly identified in the banking and finance industry, including benchmarking against other financial institutions
- Use of a materiality CR matrix
- Reference to ISO 14001

We continue to promote a business culture that encourages all our employees to play an active role in keeping corporate responsibility at the centre of our operations. Recent key initiatives in this regard including the appointment of our first 'CSR Sustainers' among senior members of staff throughout our organisation in 2011 and holding a CSR Sustainers workshop in 2012 to support efforts to further enhance our corporate responsibility performance (see box: CSR Best Practice: Building Responsibility From Within).

CSR Best Practice: Building Responsibility From Within

To further enhance employee support for our approach to corporate responsibility, in 2011 we appointed CSR Sustainers among senior members of staff throughout our organisation. Key responsibilities of these individuals include:

- Ensuring that our day-to-day business operates in line with our sustainability beliefs
- Collecting and recording data to facilitate corporate responsibility reporting
- Taking the lead in developing and promoting new sustainability initiatives

In 2012, we organised an inter-departmental CSR Sustainers workshop with the aim of helping to identify our material corporate responsibility issues and ways to further enhance engagement with internal and external stakeholders.

Other steps taken to strengthen internal buy-in include holding two CSR forums for staff, with invited guests sharing their thoughts and experience on giving back to society through active participation in community development and environmental developments of concern to Hong Kong.

Sustainable Business Success: Keystone Principle and Core Values

How we do business reflects our core values, which underlie our decision making, policies and actions. They also provide the foundation that supports our keystone principle – an unwavering commitment to service excellence.

Keystone Principle

Service Excellence: Achieving excellence in all our stakeholder relationships is the keystone of our strategy for long-term business success.

Core Values

Courageous Integrity: We act with courageous integrity in all we do, standing firm for what is right, regardless of any pressure to act differently. We make decisions without fear and without ever compromising the high ethical standards and integrity on which our business is built. Our people are dependable, open to different ideas and cultures, and connected to our customers, communities and each other. (Also see box: Dependable, Open, Connected in the 'Our Commitment: Staff' section of this Report.)

Financial Strength: Maintaining strong financial fundamentals gives us the ability to create long-term value for shareholders and make the best possible contribution to community betterment through economic growth and support of social and environmental development.

Leadership and Innovation: We are the leading domestic bank in Hong Kong, with a strong brand, extensive branch network and large base of customers. We work hard to maintain our reputation as a local pioneer in business best practice and as an innovator in product and service development. We lead by example in considering sustainability and corporate responsibility issues.

Transparency and Clear Communication: Our credibility is closely tied to quality of the information we provide to stakeholders. We continue to develop new and effective ways to engage stakeholders to better understand their priorities and concerns and to communicate clearly about all aspects of our business. We establish long-term partnerships with customers, business associates and community groups based on the loyalty and trust we build through championing open dialogue.



Hang Seng's CR Matrix

Corporate Governance & Business		People	
<ul style="list-style-type: none">Regulatory frameworkEthics and responsible business practicesGovernance (Board, senior management, functional committees)Annual/interim reportsAuditing and complianceOpen dialogueMonitoring customer satisfaction		<u>Direct</u> <ul style="list-style-type: none">Diversity and inclusionTalent retentionTrainingHealth and safetyWork-life balanceEmployee engagement <u>Indirect</u> <ul style="list-style-type: none">Supply chain managementCustomer relations	
Environment		Community Investment	
<u>Direct</u> <ul style="list-style-type: none">Environmental projectsEnvironmental educationProcurement and ITProperty managementEnvironmental reporting <u>Indirect</u> <ul style="list-style-type: none">Credit lending guidelinesSupply chain management		<u>Direct</u> <ul style="list-style-type: none">DonationsSponsorshipsStaff volunteer workCommunity partnerships <u>Indirect</u> <ul style="list-style-type: none">Leading by example	

Our CSR Model/Matrix





Our Business



> Who We Are

> What We Do

Who We Are

Founded in 1933, Hang Seng is one of Hong Kong's largest listed companies and among the top 50 listed banks in the world in terms of market capitalisation (HK\$226.9bn as at the end of December 2012). With nearly 10,000 members of staff, we serve more than 3 million people in Hong Kong – over half the adult population – through about 220 service outlets. We are the only bank offering extensive services across the MTR rail network, with outlets in 72 stations. We maintain a branch in Shenzhen in mainland China for foreign currency wholesale business, branches in Macau and Singapore, and a representative office in Taipei.

Established in 2007 and headquartered in Shanghai, our wholly owned Mainland subsidiary Hang Seng Bank (China) Limited operates a network of 46 outlets in Beijing, Shanghai, Guangzhou, Shenzhen, Dongguan, Fuzhou, Nanjing, Hangzhou, Ningbo, Tianjin, Kunming, Foshan, Zhongshan, Huizhou, Xiamen, Zhuhai and Jiangmen.

Our wholly owned Bank subsidiary Hang Seng Securities operates a securities investment advisory services joint venture – Guangzhou GuangZheng Hang Seng Securities Investment Advisory Company – in partnership with Guangzhou Securities Company in Guangdong province.

We also hold a 10.9% stake in Industrial Bank, a Mainland national bank, and 20% of the enlarged share capital of Yantai Bank, one of the largest commercial banks in Shandong province.

Hang Seng is a principal member of the HSBC Group, one of the world's largest banking and financial services organisations.



What We Do

Our business is structured into Retail Banking and Wealth Management, Corporate and Commercial Banking, Treasury, Other, and Mainland Business.

Hong Kong and Other Businesses Segment

Retail Banking and Wealth Management

Retail Banking and Wealth Management provides a broad range of products and services to meet the personal banking, consumer lending and wealth management needs of individual customers. Banking and lending services include current and savings accounts, time deposits, credit cards, mortgages and other retail lending. Wealth management includes investment, insurance and private banking services.

Corporate and Commercial Banking

Corporate and Commercial Banking provides business banking services – including payment and cash management, international trade finance, and insurance and wealth management solutions – to corporate and commercial customers.

Treasury

Treasury engages in treasury operations in areas such as credit, interest rates, foreign exchange, money markets and securities. It also manages Hang Seng's funding and liquidity positions and other market risk positions arising from banking activities.

Other

Other mainly represents the management of shareholders' funds, investments in premises, investment properties and equity shares, and subordinated debt funding.

Mainland China Business Segment

Mainland Business

Mainland Business includes the business of Hang Seng China – mainly the provision of retail and business banking services to customers on the Mainland – and our share of profits from Mainland associates.





Our Commitment PERFORMANCE



> Our Performance

> Business Awards and Recognition

To enhance our position as the leading domestic bank in Hong Kong, we strive to uphold our core values to achieve service excellence and exceed the expectations of our customers and other key stakeholders. This strategy supports the sustainable growth of our business, which will enable us to make direct and indirect positive contributions to economic, social and environmental development through channels such as tax payments, job creation, increasing value for shareholders and enhanced wealth management services for customers, as well as through our increased capacity to participate in and support a wide range of community-based projects.

Our Performance

FINANCIAL	2012	2011 ^Δ	2011 vs 2012
Operating profit (HK\$b)	15.6	14.2	+1.4
Profit attributable to shareholders (HK\$b)	19.4	16.9 ^Δ	+2.5
Shareholders' funds (HK\$b)	92.3	79.6 ^Δ	+12.7
Total assets (HK\$b)	1077.1	975.7 ^Δ	+101.4
Total liabilities (HK\$b)	984.8	896.0 ^Δ	+88.8
Earnings per share (HK\$)	10.16	8.83 ^Δ	+1.33
Dividends per share (HK\$)	5.30	5.20	+0.10
			(percentage-point)
Return on average shareholders' funds (%)	22.9	22.7 ^Δ	+0.2 p.p.
Return on average total assets (%)	1.9	1.8	+0.1 p.p.
Cost efficiency ratio (%)	34.4	35.0	-0.6 p.p.
Average liquidity ratio (%)	36.9	33.6	+3.3 p.p.
Capital adequacy ratio – as at 31 Dec (%)	14.0	14.3	-0.3 p.p.
Core capital ratio – as at 31 Dec (%)	12.2	11.6	+0.6 p.p.
ECONOMIC			
Tax expenses (HK\$b)	2.7	2.4	+0.3
Number of employees (31 Dec – FTE)	9,680	9,834	-154
Employee compensation and benefits (HK\$b)	4.1	3.9	+0.2
Number of shareholders (31 Dec)	20,282	20,252	+30
COMMUNITY			
Number of customers as at 31 Dec (m) [^]	3.2	3.1	-
Number of volunteer hours contributed	>25,000	25,000	-
Charitable donations and community sponsorships (HK\$m)	21.5	25	-
ENVIRONMENTAL			
	2012 [#]	2011 [*]	2012 vs 2011
Greenhouse gas emissions (Kilotonnes CO ₂) ^{Note A}	24.34	23.48	3.69%
Electricity consumption (GWh)	36.61	36.22	1.07%
Gas consumption (GWh)	0.33	0.40	-18.67%
Water consumption ('000 m ³)	65.90	68.22	-3.39%



Data coverage: Hang Seng Bank's Hong Kong operations

KEY: m³ cubic metres CO₂ carbon dioxide GWh gigawatt hours

Δ Figure restated

* From 1 Oct 2010 - 30 Sep 2011

From 1 Oct 2011 - 30 Sep 2012

^ Personal customers only

Note A Includes greenhouse gas emissions arising from electricity and primary fuel sources

Examples of our indirect economic contributions include our strong support for small and medium-sized enterprises (SMEs). By working with these home-grown businesses, we help drive the Hong Kong economy and create new local employment opportunities and wealth.

Other indirect economic contributions include those created through our wholly-owned subsidiary Hang Seng Index Company Limited. Established in 1984, the company compiles and maintains a broad range of market indexes, including the Hang Seng Index (HSI) that was launched by the Bank in 1969. The HSI is the leading benchmark index for the Hong Kong stock market and is among the key indexes tracking the world's most important financial markets, ranking alongside New York's Dow Jones Index and London's FTSE Index. Collectively, the Hang Seng Family of Indexes helps support the platform for equity funding of listed companies in Hong Kong, mainland China and worldwide.

Business Awards and Recognition

Business Awards
Best Domestic Bank in Hong Kong (for 13 th consecutive year) The Asset
Hong Kong Domestic Cash Management Bank of the Year Hong Kong Domestic Trade Finance Bank of the Year Asian Banking and Finance
Best Local Private Bank in Hong Kong (third consecutive year) Best at Super Affluent, Net-worth-specific Services Euromoney
Trusted Brands Gold Award – Bank (Hong Kong) Trusted Brands Gold Award – Credit Card Issuing Bank (Hong Kong) Reader's Digest
SME's Best Partner Award Hong Kong General Chamber of Small and Medium Business
The Best Corporate Governance Bank of Asia 21st Century Business Herald



Credit Ratings

MOODY'S INVESTORS SERVICE		
Hang Seng Bank	Long-term Bank Deposit (local and foreign currency)	Aa2
	Short-term Bank Deposit (local and foreign currency)	Prime -1
	Bank Financial Strength	B
	Outlook	Stable
Hang Seng China	Long-term Bank Deposit (local and foreign currency)	A3
	Short-term Bank Deposit (local and foreign currency)	Prime -2
	Bank Financial Strength	D-
	Outlook	Stable

STANDARD & POOR'S		
Hang Seng Bank	Long-term Counterparty Credit (local and foreign currency)	AA-
	Short-term Counterparty Credit (local and foreign currency)	A-1+
	Outlook	Stable
Hang Seng China	Long-term Counterparty Credit (local and foreign currency)	AA-
	Short-term Counterparty Credit (local and foreign currency)	A-1+
	Outlook	Stable

CSR Awards & Recognition

- A Corporate Knights 'Global 100 Most Sustainable Corporations in the World' – the only Hong Kong company to hold such distinction
- First local bank in Hong Kong to attain an A+ Global Reporting Initiative sustainability reporting guidelines rating – the top grade available – for a Corporate Responsibility Report (2011)
- First local bank in Hong Kong to be included as a constituent stock of the Dow Jones Sustainability Asia-Pacific Index (2011)
- First local bank in Hong Kong to attain ISO 14001 certification for all offices and branches (2011)
- Eleventh consecutive year as a constituent stock of the FTSE4Good Global Index
- Constituent stock of the Hang Seng Corporate Sustainability Index since its launch in 2010
- Tenth consecutive year as a Hong Kong Council of Social Service 'Caring Company'





Our Commitment CORPORATE GOVERNANCE



> Risk Management

> Responsible Banking Services

Our credibility as the leading domestic bank in Hong Kong relies on our operational integrity and the transparency of the information we provide to stakeholders. We uphold high standards of corporate governance, complying with both the letter and spirit of all relevant laws, regulations, guidelines and codes of conduct. If local compliance requirements are set at a lower standard than those established by our policies, our higher standards will apply where these do not contravene or conflict with local law. We give our full cooperation to and work with local regulators in the development and enhancement of industry standards.

Our employees are on the frontlines in ensuring we always operate ethically, honestly and with full accountability, and in maintaining the strength of our corporate reputation. We provide training covering issues including banking regulations and codes of practice; illegal activities such as bribery and corruption, money laundering and insider trading; and on equal opportunities and data privacy. We have comprehensive systems to ensure the appropriate use and protection of all data, particularly in relation to customer information.

We use robust 'know your customer' and assessment processes that are designed to minimise our exposure to the risk of establishing relationships with individuals or organisations engaged in activities such as money laundering, terrorism or irresponsible environmental practices and/or that involve forced or child labour or violate indigenous or other human rights.

We have also implemented financing policies that reward customers committed to supporting positive environmental change.

Our commitment to high standards of corporate governance includes following the module on Corporate Governance of Locally Incorporated Authorised Institutions issued by the Hong Kong Monetary Authority and full compliance with all the provisions and most of the recommended best practices as set out in the Corporate Governance Code contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. We regularly review and, if appropriate, enhance our corporate governance framework to ensure it is in line with international and local best practices.^{Note B}

Board of Directors

As at 20 March 2013, our Board consisted of 16 Directors – two Executive Directors and 14 Non-executive Directors. The Board includes five female Directors (one Executive Directors and four Non-executive Directors) – giving us the second-highest proportion of female Board representation (31.3%) among the constituent companies of the Hang Seng Index and the highest such representation among Hong Kong-headquartered companies. There is a strong independent element on the Board, with nine Independent Non-executive Directors, to ensure the objectivity of the Board's decision-making process as well as the thoroughness and impartiality of the Board's oversight of Hang Seng's senior management.

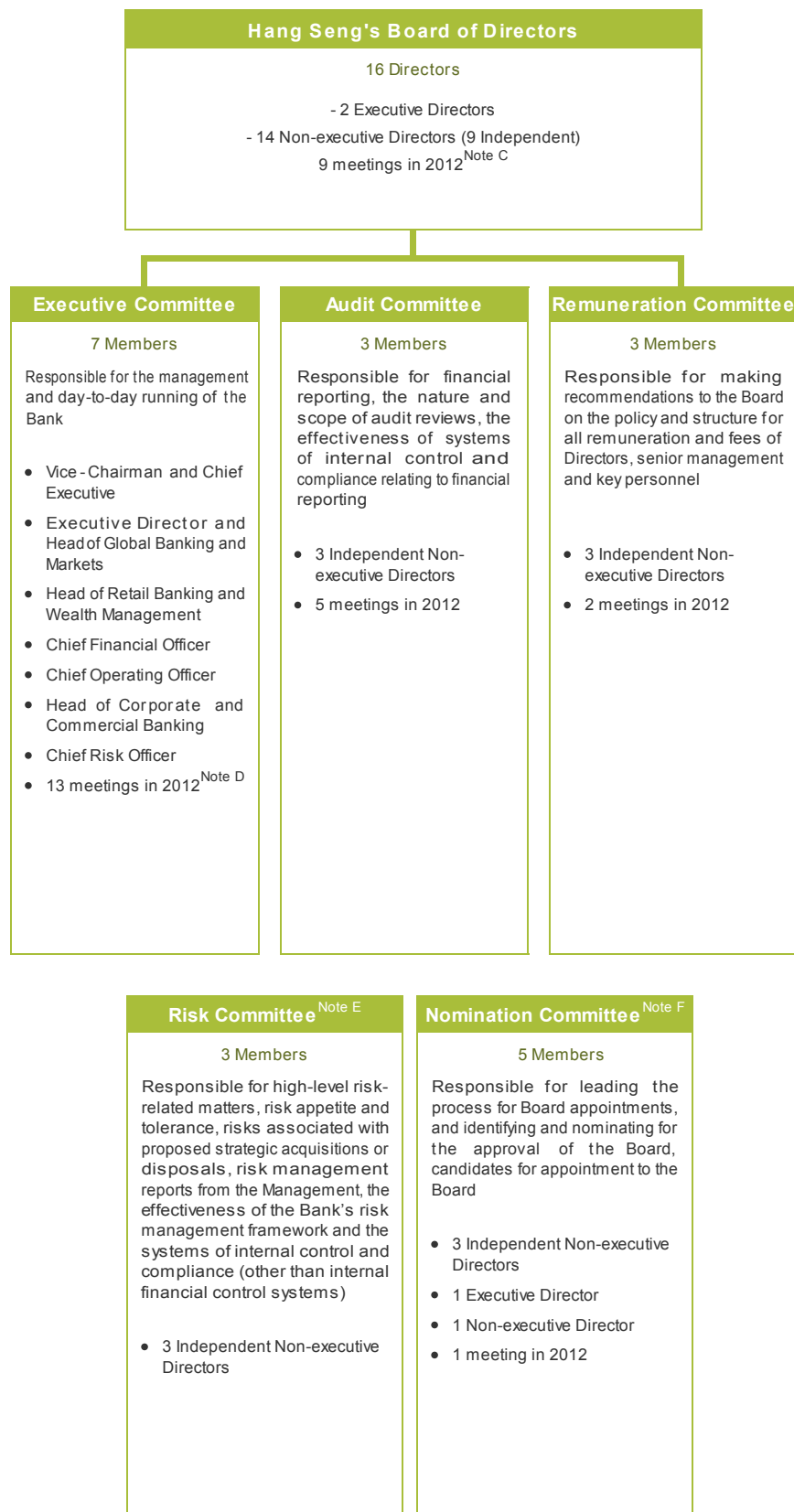
The Board has adopted a Board Diversity policy that, among other things, establishes that the Directors serve in an environment in which bias, discrimination and harassment in any form will not be tolerated.

Members of the Board, who come from a variety of different backgrounds, have a diverse range of business, banking and professional expertise. The Board possesses, both as individual Directors and collectively, appropriate experience, competencies and personal qualities 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.

Board Committees

The Board has set up five committees: the Executive Committee, the Audit Committee, the Risk Committee, the Remuneration Committee and the Nomination Committee. Each committee has specific written terms of reference that set out its authorities and responsibilities.





Note B: More details on our actions and practices in this area can be found in the 'Corporate Governance and Other Information' section of our 2012 Annual Report.

Note C: The Board held eight regular meetings and one strategic session in 2012.

Note D: The Executive Committee held 12 regular meetings and one ad hoc meeting in 2012.

Note E: The Risk Committee was set up in December 2012.

Note F: The Nomination Committee was set up in March 2012.

Hang Seng Bank (China) Limited (Hang Seng China) was established in 2007 and complies with all rules and regulations governing the set up and operation of mainland China subsidiaries of foreign banks.

Board of Directors

As at 31 December 2012, there were eight Directors on the Hang Seng China Board, including one Executive Director, who is also Chief Executive and Vice-Chairman of Hang Seng China, and seven Non-executive Directors. Among the seven Non-executive Directors, four are Independent Non-executive Directors.

Board Meetings

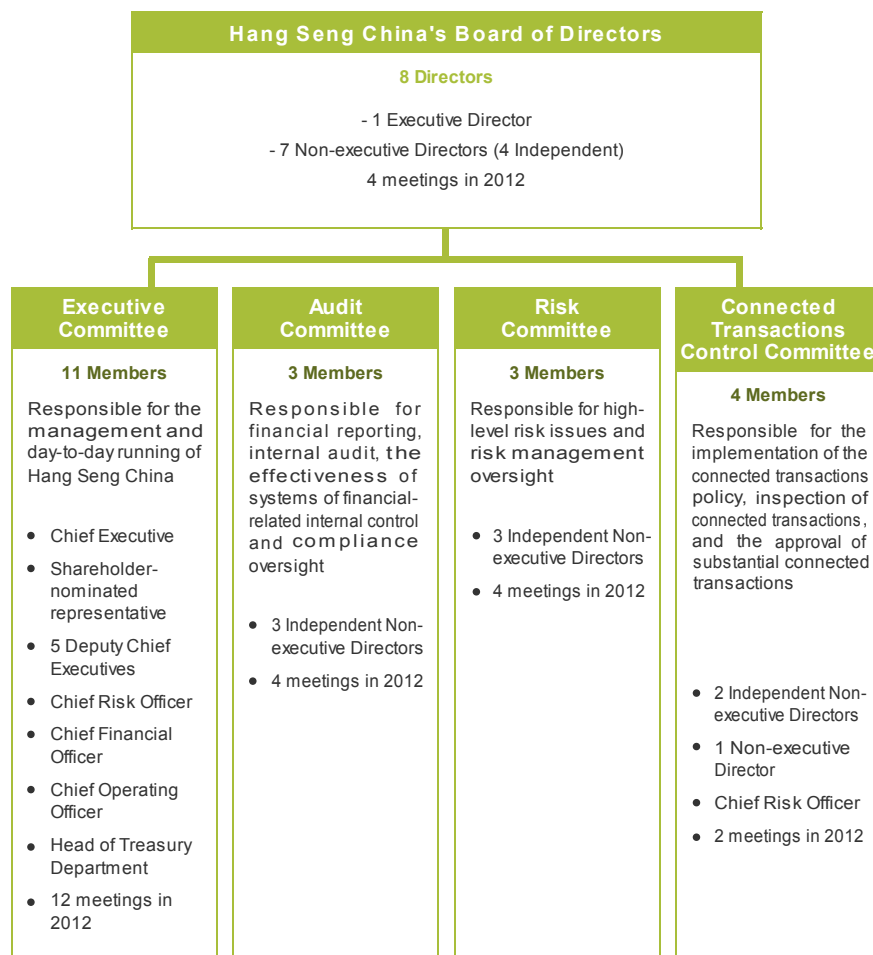
The Board held four meetings in 2012.

Board Reports to

Sole shareholder, Hang Seng Bank Limited.

Board Committees

The Board has established four committees: the Executive Committee, the Risk Committee, the Audit Committee and the Connected Transactions Control Committee. Each committee has specific written terms of reference that clearly regulate its authority, duties and meeting rules.



Supervisor

Hang Seng China has one supervisor, nominated by and reporting to the shareholder, who is required to attend all Board meetings. Hang Seng China's supervisor attended all Board meetings in 2012.

Note: All information provided on Hang Seng Bank (China) Limited is to be considered supplementary information for the purposes of this Report.

Risk Management

The effectiveness of our risk management policies and strategies is a key factor in our success.

The internal audit function provides independent, objective assurance to senior management and the Audit Committee with respect to risk management and the governance and controls framework (including financial controls), to add value and improve operations through process and control enhancement recommendations. It accomplishes its objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance processes, helping senior management to achieve their objectives within their stated risk appetite and in accordance with our ethics, values and standards.

Reporting directly to the Executive Committee, our Risk Management Committee is responsible for, among other things, our high-level risk-related matters, risk appetite and tolerance, risks associated with proposed strategic acquisitions or disposals, risk management reports from senior management and the effectiveness of our risk management framework and the systems of internal control and compliance. The Board of Directors approves risk management policies and major control limits. More details on our management of risk can be found in the 'Corporate Governance and Other Information', 'Financial Review' and '2012 Financial Statements' sections of our 2012 Annual Report.

New product development and sign-off procedures as stipulated in our Group Service Manual are in place to ensure that the design of all new products and services are reviewed and tailored to suit customers' needs before launch. All new products and material product variations must be approved by the Product Oversight Committee (POC) as a sub-committee of the Risk Management Committee (RMC). The approved products will be noted in the subsequent RMC meeting.

We maintain documented Business Continuity Plans for critical operations and significant risks, including arrangements for back-up site operations and a clearing and settlement services contingency plan to ensure that critical market functions remain operational.

For environmental risk-related matters, we follow the sustainability risk requirements of the HSBC Group. Environmental risk largely includes the risks of degrading the natural environment through accidental or deliberate actions.

Our primary risk in this regard is the indirect impact of corporate and commercial lending decisions. We support international responsible financing principles and sector-specific guidelines to help manage these environment-related sustainability risks (see 'Responsible Banking Services' section below). We also require that our credit assessment executives conduct a sustainability risk assessment of all credit applications – both new applications and annual reviews – by our business customers.

Compliance

Our key values include a solid commitment to quality, professionalism and integrity throughout our business. We have structures in place to ensure that our staff comply with both the letter and spirit of all relevant laws, codes, rules, regulations and guidelines and codes of conduct. In any jurisdiction where local compliance requirements are set at a lower standard than those established by our Group policies, our higher standards will apply where these do not contravene or conflict with local law.

Staff Code of Conduct

To ensure we operate according to the highest standards of ethical conduct and professional competence, all members of staff are required to strictly follow the Code of Conduct contained in our Staff Handbook. With reference to the applicable regulatory guidelines and other industry best practices, the Code sets out ethical standards and values to which all our 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 investment dealing, personal benefits, outside directorships/employment and equal opportunities policy are covered in the Code.

Staff Awareness

A key factor in ensuring legal and regulatory compliance, as well as guarding against illegal activities such as fraud and money laundering, is to maintain a high level of staff awareness through training. All employees must complete an anti-bribery and corruption e-learning programme to ensure that they are familiar with the relevant laws and regulatory requirements. Other compliance training programmes include those covering equal opportunities, data privacy, occupational health and safety, anti-money laundering and code of banking practice. All management employees have received the training. Line managers with members of staff on leave during a pre-arranged training session are responsible for reminding such staff to complete the training when they resume duty.

Insider Information and Conflicts of Interest

We have procedures in place to keep information confidential and manage actual or potential conflicts of interest. Stringent internal structures have been designed to prevent the misuse of insider information and avoid conflicts of interest. Staff working in sensitive or high-risk areas are required to undergo additional job-specific training.

Whistle-blowing

We encourage the reporting of suspected internal business irregularities and provide clear channels specifically for this purpose.

Anti-money Laundering

We comply with high standards of anti-money laundering, counter-terrorist financing and sanctions practice. We have stringent internal guidelines and procedure manuals as well as staff training to ensure proper internal controls and enable suspicious transactions to be identified and reported.

Price-sensitive Information

We have established a robust framework for the disclosure of price-sensitive information in compliance with the Listing Rules and other regulatory requirements. The framework sets out the procedures and internal controls for the handling and dissemination of price-sensitive information in a timely manner to help shareholders, customers, staff and other stakeholders understand 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.

Data Privacy

Ensuring the privacy of our customers' personal information and other data is among our most important responsibilities in maintaining our reputation for good governance and in establishing the trust that underpins lasting business relationships. We comply with all data privacy regulations and have formulated a set of Privacy Principles to guide staff in protecting customer information. Specific processes for the handling and protection of customer data are set out in the relevant internal procedural manual.

Data privacy matters are overseen by our Chief Compliance Officer and Data Protection Officer. Data Controlling Officers have been appointed at a functional or business unit level to promote data protection and disseminate information on related new guidelines or developments. We also have a Personal Data Protection Information Centre on our intranet to further ensure staff awareness of the latest internal and external requirements.

Equal Opportunities, Anti-discrimination and Human Rights

We fully comply with Hong Kong labour law and our internal code of conduct. We also take steps to assess potential new client and supplier relationships with the aim of minimising the risk of indirectly facilitating the violation of any individual's labour or human rights.

We provide a wide range of staff training on equal opportunities, diversity and human rights-related issues that are relevant to our operations and to creating a positive working environment. More details on our equal opportunities policies and training can be found in the 'Our Commitment: Staff' section of this Report.

Responsible Banking Services

Lending and Investment Policies

Our financing decisions reflect our business principles, risk assessment processes and the needs of our customers.

Evaluation of environmental-related impacts is part of our credit evaluation process for credit approval from time to time and any deviation from our established policies must be fully justified and will be considered as highly exceptional. Normally, a target date to comply with our environmental-related standards will be established as part of the credit approval agreement in such cases. If the customer fails to implement demonstrable actions to achieve such compliance, we will take steps to exit the credit arrangement.

We abide by the Equator Principles, a set of voluntary guidelines for the assessment and management of environmental and social risks in project financing. We also have specific guidelines on lending to businesses operating in environmentally sensitive sectors such as chemicals, energy, forestry, freshwater infrastructure, and mining and minerals (see box: Responsible Financing). We also have a defence equipment policy which sets out our approach to companies involved with weapons.

Facilitating Positive Change

The Hang Seng Green Financing Scheme provides funding for Hong Kong-owned factories in the Pearl River Delta (PRD) region to acquire green equipment that will enhance energy efficiency and reduce pollution.

For corporate customers that have had their project assessed and endorsed by the Hong Kong Productivity Council (HKPC) with respect to its impact on energy efficiency and pollution reduction, we offer up to 100% financing on an equipment financing loan, and other privileges such as an annual fee waiver on commercial credit cards, and discounts on premiums for general insurance products. As an additional gesture of support for improved environmental protection, we donate HK\$1 for every HK\$1,000 loan amount borrowed under the Scheme to a Green Fund administered by the HKPC for environmental protection activities, with benefiting organisations including Friends of the Earth (HK), Green Power and WWF HK.



Responsible Financing

Our belief in promoting sustainable business practices means that we carefully assess potential environmental and social risks when deciding to make a loan or investment.

Specific guidelines in this regard include:

Forest Land and Forestry Products Sector

Outlines how we will work with our customers to promote sustainable forestry practices.

Freshwater Infrastructure Sector

Aims to ensure the consistency of our involvement in freshwater infrastructure projects, particularly from the standpoint of sustainable development.

Chemical Industry Sector

Highlights the international, regional and national standards we conform to in lending to the chemical industry and outlines how we will work with our customers towards more sustainable chemical manufacture.

Energy Sector

Establishes sustainability standards for our involvement in the energy sector and for providing financial services to energy sector projects.

Mining and Metals Sector

Sets out the principles and standards that govern our involvement in all areas of the mining and metals sector, including exploration, extraction, mine closure and reclamation, and primary processing.

Defence Equipment Sector

Establishes our position with regard to companies involved in the manufacture and sale of weapons.

We have a number of training programmes that cover our environmental and social policies, including as part of our New Joiners Programme, to improve staff competency in implementing these policies and procedures as applied to our various business lines.



Our Commitment CUSTOMERS



- > Service Excellence
- > Handling Customer Feedback
- > Access for All
- > Serving special-needs populations
- > Transparency, Accountability, Choice
- > Customer privacy
- > Championing Local Business
- > Helping Customers Face Financial Challenges
- > Community outreach
- > Service Environment

Our business is about building lasting relationships. Over the past 80 years, core values such as professionalism, passion and taking a prudent-yet-progressive approach have earned us the trust of more than 3 million customers in Hong Kong.

We deliver service excellence by combining innovation with integrity in offering our products and services, including the provision of clear and honest information that is tailored to specific customer needs, open communication and full accountability in all our business dealings, and high respect for client privacy.

We provide a safe and welcoming environment at all our outlets, with an emphasis on comfort, efficiency and the status of our customers as honoured guests.

We work to improve financial literacy within our community, with the objectives of empowering individuals and businesses to achieve financial security and move forward with their wealth management goals, irrespective of their income or circumstances.

A deep understanding of the financial needs and objectives of our customers underpins our reputation for service excellence. We provide channels such as suggestion forms and hotlines for customer-initiated feedback. We proactively gather customer opinions – including through an annual relationship management survey to assess business customer satisfaction – to enhance our ability to provide an outstanding service experience. We identify our strengths, areas for improvement and industry best practices through local market benchmarking exercises and operate a mystery shopping programme to monitor and ensure quality service by our frontline staff at branch outlets and MTR station offices.

We receive third-party assessment of our performance from external agencies. Customer satisfaction is also monitored through market surveys such as the Banking Industry Monitoring Study conducted by Oracle Added Value. In 2012, we were the most recommended bank by customers and have had the highest-rated banking services in Hong Kong for eight consecutive years.

Service Excellence

In upholding service excellence as our keystone principle we continue to receive recognition for our banking and financial services.

Award Name	Category
Sing Tao Excellence Service Brand Awards 2012	Banking – Branch Services
Ming Pao Weekly Elite Awards 2012	星級財富管理銀行大獎
EastWeek Hong Kong Service Awards 2012	General Banking Services
Ming Pao – Prestigious Corporate Brand Award 2012 - 2013	Consumer Grand Award in Hong Kong Category - Banking Services

Handling Customer Feedback

Business units, frontline staff and our Quality Assurance Department (QAD) are all responsible for receiving customer opinions, comments and suggestions. We have a standardised complaint handling procedure to ensure customer feedback is dealt with in a consistent and efficient manner that abides by the service pledges contained in our internal procedure manual and external guidelines.

QAD, which is an independent unit, handles customer comments and assists business units in resolving complaints. QAD staff aim to acknowledge receipt of any feedback or complaint within two working days and to resolve most issues (if applicable) within seven days. Should the matter require further investigation, QAD is committed to undertaking this task and providing a comprehensive follow-up reply within 30 days. If QAD's investigations identify any issues that require remedial action, line management will take the necessary steps to address these matters.

Senior management regularly review reports on customer suggestions, comments, compliments and complaints. Lessons learnt from customer feedback are communicated to staff to improve customer service and encourage best practice.



Our Service Pledge	
In addition to complying with external regulations and guidelines, we apply a rigorous set of internal 'Customer Fairness Principles' in offering our products and services.	
Treat Me Fairly	We will build honest relationships with customers and deliver products and services at a fair price
Tailored Solutions	We will listen to customers and work to understand their needs in order to provide the most suitable products and services
Keep Me informed	We will provide clear, transparent, relevant and timely communications that give customers all the information they need to make informed choices
Suitable Advice	When we provide advice to a customer it must be based on a full understanding of their needs and best reflect their circumstances
Meet Commitments	When we make commitments to a customer as to how a product or service will perform, we will always endeavour to deliver on these commitments
Flexibility	We will provide customers with the ability to change products or services as their requirements change without enforcing unreasonable barriers. If a customer wishes to complain or make a claim, the process will be easy to understand

We are also governed by Hong Kong's Code of Banking Practice, our Group Standards Manual and our internal legal and compliance Functional Instructions Manual.

We provide a diverse range of personal banking and wealth management products to enable customers to select the solution that best suits their needs. We offer investment products with different risk levels to suit the varying risk appetites of customers.

Our strong product manufacturing and distribution capabilities allow us to offer timely investment solutions to support the financial management objectives of customers in different market situations and business conditions.

Championing Local Business

Building strong partnerships with small and medium-sized enterprises (SMEs) is one of our key areas of focus. By working with these businesses, we help drive the Hong Kong economy and create new local employment opportunities and wealth.

We actively participate in the SME Financing Guarantee Scheme supported by Hong Kong Mortgage Corporation, which helps SMEs acquire sufficient funding to meet their business needs.

We regularly run seminars for SME customers in collaboration with external parties or associations on topics related to financing solutions, taxation, investment market, to help improve SMEs' financial literacy and increase awareness of relevant financial management tools.

Our commitment to supporting SME business earned us our seventh consecutive award under the 'SME's Best Partner Awards' organised by the Hong Kong Chamber of Small and Medium Business.

Along with steps to further improve service access and efficiency at our eight Business Banking Centres, these types of initiatives enabled us to grow our Corporate and Commercial Banking customer base by 13% by the end of 2012 compared with a year earlier.



Helping Customers Face Financial Challenges

We understand that life is full of uncertainties and unforeseeable change. That is why we are committed to working with customers facing challenging financial situations. For business customers that are dealing with such difficulties, we provide assessment and advisory services that aim to help them get back on track.

We help business customers make a realistic assessment of their current position, from which we will determine the best course of action. This may involve rescheduling a debt based on new cash flow projections, the continuation of revolving facilities to keep businesses afloat during a tough period or providing a grace period to give the customer time to work out and execute a longer term recovery strategy.

Similarly, our primary objective when working with personal customers in financial distress is to find a win-win solution. Our internal guidelines are based on the Hong Kong Approach to Consumer Debt Difficulties issued by the Hong Kong Monetary Authority. We have a dedicated unit for handling debt relief plans that will review the circumstances surrounding each case with the individual(s) involved. Where a genuine difficulty exists, we aim to find possible solutions that may range from extending a repayment schedule to offering partial relief.

Community outreach

At a broader community level, we are working in partnership with several local non-governmental organisations (NGOs) – including Caritas Family Crisis Support Centre and The Healthy Budgeting Family Debt Counseling Centre under Tung Wah Groups of Hospitals – to help individuals in financial difficulty by offering them debt-restructuring services.

We also participate in the joint Financial Education Programme organised by the Hong Kong Association of Banks and the Hong Kong Council of Social Service with the aim sharing key concepts of savings and credit and strategies for sound financial management with low-income groups and single parent families.

Service Environment

In line with the principles established by Hang Seng's founders, we view every customer who visits our outlets as an honoured guest. We aim to provide a comfortable, clean and safe environment in all our branches and service outlets. We design our premises with ease of navigation and health and safety as top priorities. We also have floor staff operating at our branches who are available to assist customers with enquiries.

In Hong Kong's humid climate, managing indoor air quality (IAQ) and ventilation systems is an important element of our health and safety responsibilities. To ensure that the IAQ at our branches and offices meets the 'Good Class' established in the Guidance Notes for the Management of IAQ in Offices and Public Place issued by Hong Kong Government's Environmental Protection Department, we regularly clean air filters and conduct IAQ measurements for monitoring and continuously improving the system performance.

Our standard temperature set point in our offices and outlets is 24.5 °C during the hot season, with the aim of striking a good balance between our determination to reduce our energy consumption and our desire to provide a pleasant environment for customers and staff.

We have a Crisis Committee and a multi-disciplinary pandemic contingency planning team comprising representatives from various divisions of the Bank to implement comprehensive damage control measures to enable us to continue to provide services to the public in the event of an outbreak of influenza or other contagious disease.

We have implemented a wide range of measures and procedures to minimise potential safety hazards for both staff and customers in our premises, including non-slip treatments on floor surfaces and use of clear and conspicuous signage for temporary safety hazards such as wet floors.

To help ensure the good occupational health of our customers and staff, we provide ergonomically designed furniture and related equipment.

We provide safety training and conduct periodic emergency evacuation drills to ensure that our employees can efficiently and effectively identify, eliminate and/or mitigate any potential safety risk to customers and staff arising from fire or similar emergency situations. We have appointed Fire Marshalls in all our premises. We also have training arrangements in place to ensure that a number of employees hold Qualified First Aider status and take regular First Aid refresher courses for the benefit of their colleagues and customers in the event of a medical emergency or accident.



Our Commitment SUPPLIERS



As a service-based business, supply chain management is not a primary driver of our sustainability performance. Nevertheless, we rely on a range of vendors, agencies and third-party financial product suppliers to support the effective operation of our business. The actions of these external parties potentially expose us to reputational and other risks.

We have stringent standards for assessing suppliers, including requirements relating to environmental, social and ethical practices. In return, we provide transparency and fairness in our procurement process and contractual arrangements.

Our management of supplier relationships is designed to not only safeguard our brand and our business, but also to promote responsible practices among other companies in our community.

As a service-based business, supply chain management is not a primary driver of our sustainability performance. However, our relationships with contractors and suppliers represent an additional opportunity for us to encourage positive change among businesses in our community. We must also protect our corporate reputation by requiring suppliers to demonstrate a commitment to ethical behaviour and other sound operating values.

We have clear policies and guidelines for selecting contractors to ensure they can provide services in full compliance with our supplier sustainability standards, which cover areas such as ethics, health and safety, employment policies, human rights-related issues and environmental performance.

Suppliers are required to meet the requirements of our ethical code of conduct – the Ethical and Environmental Code of Conduct for Suppliers of Goods and Services (Code). In addition to confirming their full compliance with all relevant legislation, regulations and directives in the countries in which they operate, all our suppliers must agree to respect the human rights of their employees and local communities.

Our supplier pre-qualification documents also ask contractors to complete a questionnaire covering environmental issues, including whether they have an established environmental management system and/or have attained ISO 14001 accreditation, which is assessed as part of the tender process.

Suppliers with whom we have regular and recurring dealings must have demonstrable management processes in place to ensure their continued compliance with the Code, and must make reasonable efforts to monitor and ensure that their own supply chain is aware of and compliant with the Code's standards.

We continue to monitor supplier practices following their appointment and reserve the right to randomly review a supplier's policies, procedures or any other document related to our Code. In some cases, we may request an on-site audit.

All our procurement is done on a competitive basis and we have strict procedures governing staff conduct when handling procurement issues. Our procurement policy also governs internal control of operating and capital expenditures, covering all purchases and expenditure by the Bank. The policy aims to support operational efficiency, segregation of duties and the requirement to make the 'best buy' as well as ensure transparency throughout the procurement process.

We use e-procurement systems to reduce paper consumption and lead times as well as enhance supplier control and information management. We encourage our suppliers and contractors to use or offer environmentally friendlier or recycled products whenever possible.

For third-party suppliers of financial products and services, we choose to only work with highly reputable organisations that have a demonstrable track record of high corporate standards and we have rigorous assessment procedures in place to ensure any investment or insurance solution not only meets regulatory requirements but also our internal standards for any product or service we intend to offer to customers.



Our Commitment **STAFF**



- > Training and Development
- > Cultivating Leaders and Nurturing Talent
- > Pay and Compensation
- > Employee Engagement and Communication
- > Equal Opportunities, Diversity and Inclusion
- > Occupational Health and Safety
- > Business Principles and Values
- > Work-Life Balance
- > A Statistical Snapshot of Our People

Our people are more than just employees - they are the ambassadors, relationship builders and public face of our business. To successfully establish long-term customer and community relationships, we must provide our most valuable assets with the support, skills and working conditions they need to deliver service excellence.

We offer compensation, training and career development opportunities that attract and motivate top talent. We lead by example in demonstrating personal and professional respect for our people by providing a safe, inclusive and dynamic work environment that encourages and inspires and that ensures equal opportunities for all. We strictly adhere to the letter and spirit of all relevant labour and employment legislation and uphold the principle of 'equal pay for work of equal value'.

We maintain open channels for dialogue between senior management and staff at all levels, and encourage employees to take full ownership of their role in our business success.

We support our people in managing their personal and professional commitments through flexible work arrangements and other familyfriendly policies. We provide opportunities for our staff to become more involved in the development of the community in which they live and work through our Bank Volunteer team activities.

Our efforts have been independently acknowledged with our recognition as the 'Most Attractive Employer in Hong Kong' in the banking and financial services category in the 2013 Randstad Award.

We are one of Hong Kong's largest listed companies with a full-time equivalent staff of 9,680 (as at 31 December 2012).

The Bank has a well-established system for appraising and enhancing employee performance at all levels.

Every year, managers and their reporting employees will take shared responsibility for setting individual employee career development plans and clear, measurable work objectives that are challenging but achievable. Two-way communication is maintained throughout the year to support the employee's progress, and at least two formal performance reviews are arranged in which the employee's manager will provide comments and feedback on the employee's development and progress, including a formal rating in accordance with our employee performance rating scale.



Training and Development

Our intranet provides staff members with convenient access to information about our online and in-person training and career planning solutions, with different teaching methods that allow employees to learn in a way that best suits their needs. Our wide range of programmes includes financial and product knowledge, selling and sales management skills, leadership and management skills, and language and professional development. We respond quickly to changing training needs to ensure our people meet regulatory requirements and are well equipped to explore new avenues for business growth.

Additional opportunities for skills acquisition are provided through job rotations, secondments and cross-posting programmes. We also operate an award scheme to encourage employees to pursue professional or academic qualifications that will enhance their job performance and career advancement prospects.

Our average number of training days per full-time member of staff in 2012 was six - the same as in 2011.

Training		2012
No. of days training per year per employee		6
No. of hours training per year per employee (by gender)		
- Male		50
- Female		44
No. of hours training per year per employee (by employee category)		
- Executive		35
- Officer		55
- General staff		41

Cultivating Leaders and Nurturing Talent

We help enhance the capabilities and skills of employees by providing a wide range of training programmes to our staff at all levels. Such training facilitates improved job performance and offers support for career advancement. Our programmes include training in areas such as leadership and management issues, selling and negotiation, customer service, computer literacy and language skills. We aim to cultivate a positive performance management culture by ensuring line managers provide their staff with the knowledge and support to appropriately reflect on their career aspirations and set goals that will enhance their long-term growth.

Beyond our internal training programmes, we have a staff education and professional qualification award scheme that supports individuals who wish to attain higher education and/or professional qualifications such as bachelors or masters degrees, and CFA, CFP and CFMP accreditation.



Building Better Leaders	
The retention and development of top talent supports the sustainable growth of our business. Examples of the specialised training provided under our Leadership and Management Development programme include:	
Effective Career Conversation	Training to help managers with people responsibilities to enhance their ability to engage in effective career development dialogue with their staff.
Values	Our value-based performance management workshops help managers learn how to reinforce desirable behaviours and practices of their team.
Core Leadership Programmes	A series of workshops and leadership talks (Leadership Challenge Programme, Leadership Transition Programme and Leader in You) to help leaders at different levels to strengthen their leadership skills.

Management Trainee Programmes

Our Management Trainee programmes give graduates in Hong Kong and mainland China intensive training and exposure to different business segments with the objective of grooming participants to take up future management roles.

Beyond the workplace

To encourage increased awareness and discussion of broader societal issues as well as to support our corporate responsibility initiatives, we organised two staff CSR forums in 2012, with two invited speakers sharing their thoughts and experience on giving back to society through active participation in community development and on environmental developments of concern to Hong Kong.



Pay and Compensation

We offer competitive pay and employee benefits to attract talented staff and use a performance-based remuneration system to motivate and reward them in line with their contributions to growing our business.

Additional incentivisation is generated through the use of a variable pay scheme that is based on the performance of the Bank as well as that of the individual employee. As part of our staff retention programme, we regularly review packages and career advancement opportunities, particularly for key positions, to ensure continuing market competitiveness.

Equal pay for equal work

We strictly adhere to the principle of equal remuneration for work of equal value. Entry-level salaries for men and women in each employee category or job function are not differentiated by gender.

Turnover Rate

Our voluntary turnover rate in Hong Kong for 2012 was 11.7%.

Employee Engagement and Communication

Effective communication is crucial in building a motivated, engaged workforce. Since 2007, we have conducted a staff survey to measure the engagement level of our staff and gain their insights into how we are progressing against our stated objectives and strategy. The results of this survey also enable our senior management and line managers to better understand the motivators and barriers to improved performance and take appropriate action.

Information relating to employment matters, the Bank's business direction, strategies and factors affecting the Bank's performance are conveyed to staff via different channels, including business briefings, circulars, e-mails, and our in-house intranet, staff magazine and internal morning broadcasts.

Significant operational changes are communicated to staff in a clear and timely manner to allow sufficient time for successful implementation.

Our employees have an invaluable role to play in helping to form and enhance our strategic direction and policies. We promote a 'listening and speaking up' culture as part of our emphasis on open dialogue, resulting in more effective communication and improved service across all levels of our organisation.

Members of staff are also encouraged to contribute their ideas during work improvement programmes, cross-team projects and suggestion schemes. Employees can engage in two-way communication with senior management or provide feedback through such initiatives as Chief Executive's Mailbox and Post-results Business Briefings.

Equal Opportunities, Diversity and Inclusion

In championing a diverse and inclusive workplace, we expect all members of our team to demonstrate appreciation, care and respect for each other, regardless of position, background, gender or age.

Our employment practices do not discriminate on the grounds of sex, marital status or pregnancy, family status, race, religion, national or ethnic origin, or disability. We are committed to protecting human rights in the workplace, as guided by our Equal Opportunities Policy as laid out in our Human Resources Manual.

Training is in place as a precaution to minimise the risk of related incidents. Training on diversity and inclusion is incorporated in our New Joiners programme, which is mandatory for all new members of staff. It promotes diversity and inclusion across the Bank and guides employees in practising inclusive behaviours in the workplace. Managers with people responsibilities are also required to complete our 'Unconscious Bias Learning for Managers (UB)' course, which reinforces the importance of dismantling any workplace barriers that exclude people and of supporting a culture that is free from bias.

In 2012, we provided around 22,000 hours of training on human rights policies, procedures and awareness building that is relevant to our work environment and operations. Issues covered include data privacy protection, diversity and inclusion, equal opportunities, racial discrimination, business ethics and staff code of conduct.

Occupational Health and Safety

With regard to occupational health and safety (OHS), our workforce is represented by the Safety Management Committee (SMC) - a formally established committee that includes and is jointly operated by members of management and other employees.

The SMC was established as part of our Bank-wide implementation of a BS OHSAS 18001:2007 compliant Occupational Health Safety Management System (OHSMS). Senior management representatives help monitor and advise on OHS programmes, while about 300 members of staff serve as Job Hazards Analysis (JHA) team members and /or Internal Safety Assessors, with middle management representatives forming the SMC Working Team of SMC, a secondary tier SMC committee that reports to SMC senior management.

As part of our BS OHSAS 18001:2007 - OHSMS certification, all employees are free to become actively involved in formal and labour-management type agreements that govern OHS management arrangements. (see box: OHS: Everyone's Business)

OHS: Everyone's Business

Under our BS OHSAS 18001:2007 - OHSMS certification, we have established processes for addressing a broad range of OHS issues at both Bank-wide and functional levels.

Issues discussed at a functional level include:

- Personal protective equipment
- Organisation and operation of the SMC
- Staff representative participation in health and safety inspections, audits and accident investigations
- OHS training and education
- Complaints and reporting mechanisms
- Safe workplace rights

Issues discussed at a Bank-wide level include:

- Compliance with the International Labour Ordinance as required under the internationally recognised BS OHSAS 18001:2007 certification standards
- Arrangements and systems for resolving OHS-related problems
- Commitments regarding target performance standards and levels of practice to apply

Occupational Health and Safety Statistics 2012	
Lost day rate	3%
Occupational injury rate	0.18%
Absenteeism rate [#]	1.79%*

Includes Hang Seng Hong Kong operations and others. 'Others' includes Macau/overseas and other (~0.7% of total headcount of Hang Seng Group)

* Includes sick leave & compensation sick leave days in 2012

Business Principles and Values

Our stringent principles of business conduct - based on external regulations and internally established standards and values - hold our people to high standards of integrity. Our key principle is the concept of 'courageous integrity' (see box: Acting with Courageous Integrity), under which we empower all our employees with the courage and capability to do the right thing without compromising ethical standards or personal integrity, and to act in an honest and upright way in everything they do. These principles and values are reinforced through training.

Acting with Courageous Integrity

We empower our employees to always act in accordance with our core value of 'courageous integrity' and to be dependable, open and connected in all that they do.

Dependable - do the right thing

- Stand firm for what is right, deliver on commitments, be resilient and trustworthy
- Take personal responsibility, be decisive, use good judgment and common sense
- Empower others

Open - to different ideas and cultures

- Communicate openly, honestly and transparently, embrace challenges, learn from mistakes
- Listen, treat people fairly, be inclusive, value different perspectives

Connected - to customers, communities, regulators and each other

- Build connections, be aware of external issues, collaborate across boundaries
- Care about other people and their progress, show respect, be supportive and responsive

Work-Life Balance

Staff who enjoy a good work-life balance are better equipped to give their best performance. We support our people in effectively managing their work and life commitments through initiatives including flexi-time arrangements, adoption leave and volunteer leave.

As part of our efforts to be a family-friendly employer, in 2008 we implemented a paternity leave scheme that gives fathers the chance to offer greater support to their wives in the days following the arrival of a new baby. Some 96 male employees benefitted from this initiative in 2012, while 179 female employees took their statutory entitlements for maternity leave under Hong Kong's Employment Ordinance. The return-to-work rate and retention rate following parental leave was close to 100%.

To encourage healthy lifestyles, a passionate spirit and broad-ranging interests among our employees, we organise a wide range of recreational and sporting activities. In 2012, these included a family fun day and six sporting competitions - badminton, 10-pin bowling, table tennis, golf, basketball and football under the Hang Seng Cup. Over 21,000 participants took part in the sporting activities we organised for members of staff and their families and friends in 2012.



A Statistical Snapshot of Our People

Headcount by Employment Type (in FTE)						
	Hang Seng Bank & Others [#]		Hang Seng China		Total	
	Headcount	(%)	Headcount	(%)	Headcount	(%)
Full-time Permanent Staff	7,702	(98.8%)	1,750	(92.9%)	9,452	(97.6%)
Full-time Contract Staff	55	(0.7%)	133	(7.1%)	188	(1.9%)
Part-time Staff	27.18	(0.3%)	-	-	27.18	(0.3%)
Temporary Staff	12.73	(0.2%)	-	-	12.73	(0.1%)
Total	7,796.91	(100.0%)	1,883.00	(100.0%)	9,679.91	(100.0%)

Headcount by Gender*					
	Executive	Officer	Clerical / Non-clerical staff	Total	(%)
Hang Seng Bank & Others #					
Male	621	1,547	1,026	3,194	(41.2%)
Female	569	1,898	2,096	4,563	(58.8%)
Hang Seng Bank & Others # Total :	1,190	3,445	3,122	7,757	(100.0%)
Hang Seng China					
Male	147	236	229	612	(32.5%)
Female	156	472	643	1,271	(67.5%)
Hang Seng China Total :	303	708	872	1,883	(100.0%)
Overall					
Male	768	1,783	1,255	3,806	(39.5%)
Female	725	2,370	2,739	5,834	(60.5%)
Overall Total	1,493	4,153	3,994	9,640	(100.0%)

Average Age*				
	Executive	Officer	Clerical / Non-clerical staff	Overall
Hang Seng Bank & Others #	42	36	39	38
Hang Seng China	38	32	28	31
Overall	41	36	36	37

Average Years of Service*				
	Executive	Officer	Clerical / Non-clerical staff	Overall
Hang Seng Bank & Others #	12	12	14	13
Hang Seng China	6	3	2	3
Overall	11	10	11	11

New Hires by Age and Gender Group*				
	Male	Female	Total	(%)
Below 30	359	449	808	(84.0%)
30 to 39	62	46	108	(11.2%)
40 to 49	16	16	32	(3.3%)
50 to 59	10	4	14	(1.5%)
60 to Above	-	-	-	-
Total	447	515	962	(100.0%)

New Hires who left the Bank by Age and Gender Group*						
	Voluntary		Involuntary		Total	(%)
	Male	Female	Male	Female		
Below 30	33	46	19	32	130	(91.5%)
30 to 39	3	2	3	1	9	(6.3%)
40 to 49	-	-	-	2	2	(1.4%)
50 to 59	-	-	1	-	1	(0.7%)
60 to Above	-	-	-	-	-	-
Total	36	48	23	35	142	(100.0%)
Grand Total	84		58			

Employees who left the Bank by Age and Gender Group*										
	Voluntary				Involuntary				Total	(%)
	Male		Female		Male		Female			
	Headcount	Turnover Rate (%)	Headcount	Turnover Rate (%)	Headcount	Turnover Rate (%)	Headcount	Turnover Rate (%)		
Below 30	246	3.1%	358	4.5%	35	0.4%	55	0.7%	694	(56.5%)
30 to 39	70	0.9%	129	1.6%	22	0.3%	32	0.4%	253	(20.6%)
40 to 49	22	0.3%	44	0.6%	16	0.2%	32	0.4%	114	(9.3%)
50 to 59	27	0.3%	18	0.2%	33	0.4%	34	0.4%	112	(9.1%)
60 to Above	2	-	-	-	44	0.6%	9	0.1%	55	(4.5%)
Total	367	4.7%	549	7.0%	150	1.9%	162	2.1%	1228	(100.0%)
Grand Total	916		11.7%		312		4.0%			

* Excludes part-time and temporary staff.

Others includes staff in Macau/overseas and in Hang Seng Bank's Mainland operations including Hang Seng Bank (China) Limited (~0.7% of the total headcount of the Hang Seng Group).



Our Commitment ENVIRONMENT



> Environmental Performance

As one of Hong Kong's largest listed companies, we have a prominent platform from which to champion the cause of improved environmental stewardship. The collective global response to challenges such as climate change and conserving biodiversity will influence the long-term health of the natural systems upon which we all depend. We are committed to playing our part in working towards positive long-term outcomes.

We take steps to cut our waste production and consumption of energy and natural resources, and encourage our customers and suppliers to do the same through our services and policies. We empower our staff to act as ambassadors for the environment by raising their awareness and understanding of green issues. Whenever possible, our operations utilise environmentally friendly products and certified materials.

We consider the environmental impact of our business travel policies and are working to reduce non-essential travel through increased use of alternatives such as teleconferencing.

As a leading corporate citizen in Hong Kong, we are proud to be a local pioneer in promoting greater environmental responsibility. Beginning with our headquarters building in 2005, we have led the way in gaining ISO 14001 certification among local banks. In 2011, we became the first local bank to achieve this internationally recognised environmental accreditation for all Hong Kong offices and branches.

Since 2007, we have worked with The Conservancy Association through the Hang Seng Yunnan Biogas Project to bring a free and stable energy supply to people living in rural areas in Yunnan province in mainland China. To date, we have helped establish 2,200 biogas facilities that are improving life for 9,000 villagers while saving 15,000 acres of forest every year (equivalent to an area about 95 times the size of Hong Kong's Victoria Park) and reducing annual carbon dioxide emissions by 25,500 tonnes. In November, a team of Bank volunteers visited Yunnan to inspect the 550 facilities constructed in 2012. We have committed to build a further 800 facilities in 2013, benefiting about 3,000 people.

Hang Seng Yunnan Biogas Project

Ken So, Chief Executive of The Conservancy Association

"We would like to thank Hang Seng Bank for their continuous support in the past six years. The Project is a good demonstration of the effectiveness of collaborative sustainable development efforts by corporations, green groups and local communities."

Our involvement with this renewable energy project led to a Gold Award for community relations at the 10th China Golden Awards for Excellence in Public Relations organised by the China International Public Relations Association.

Launched jointly with the Federation of Hong Kong Industries in 2007, the Hang Seng Pearl River Delta Environmental Awards (Awards) are part of our commitment to working with the southern China business community on environmental issues. By recognising the green initiatives of participants, the Awards are helping to accelerate the pace of positive environmental change among manufacturing companies in the Pearl River Delta region.

A record 188 participants submitted 672 projects in 2011/12, with collective achievements including cutting electricity consumption by over 91 million kWh – equivalent to the electricity used annually by 14,000 average four-member households – and reducing waste by more than 650,000 tonnes.

In light of the Awards' success and to encourage more companies to improve their environmental performance, the 2012/13 Awards will expand to cover the pan Pearl River Delta region.

Other initiatives to promote the reduced consumption of natural resources include our e-Statement and e-InvestAdvice services, through which e-Banking clients can choose to receive account statements and other notices in electronic rather than paper format. By the end of 2012, the number of e-Statement and e-InvestAdvice subscribers had reached over 646,000 and more than 62,000 respectively – collectively saving over 31 million sheets of paper a year. Our printed materials are produced using environmentally certified paper whenever possible – including our interim and annual financial reports, which are printed on Forest Stewardship Council-certified paper. Electronic versions of financial reports are available on our website and shareholders can opt out of receiving a paper version.

Our Green Banking Integrated Account is specially designed to encourage full-time tertiary students at local universities and tertiary institutions to support environmental protection. It offers a wide range of paperless and environmentally friendly banking services.

The Hang Seng Green Financing Scheme provides funding for Hong Kong-owned factories in the Pearl River Delta region to acquire green equipment that will enhance energy efficiency and reduce pollution. (For more details see Facilitating Positive Change in the 'Our Commitment: Corporate Governance' section of this Report.)



We reach out to the wider community in partnership with green groups through our support for events such co-organised with The Conservancy Association.

We continue to take steps to support the conservation of biodiversity – both through our financing policies and within our own operations. We stopped serving shark's fin at Bank functions in 2003 and have since removed endangered reef fish from our menus. We comply with WWF Hong Kong's Seafood Guide and, in 2011, implemented a sustainable seafood menu endorsed by the same organisation at our banquet hall.

We are making steady progress in cutting our emissions (see table: Environmental Performance) and continue to take steps to stay abreast of environment-related regulatory developments that could directly or indirectly impact our business.



Environmental Performance

	Unit	2012 ^	2011 #
GHG Emissions (CO₂ equivalent)*			
Electricity	tonnes	24,324.76	23,454.59
Employee travel	tonnes	274.32	277.81
Other fuel sources (gas and diesel)	tonnes	17.51	20.93
Total	tonnes	24,616.59	23,753.33
Resources Consumption			
Electricity	Gj	131,804.29	130,405.06
Other Fuel Sources (gas and diesel)	Gj	1,204.89	1,475.42
- Gas	Gj	26.35	26.35
- Diesel	Gj	1,178.54	1,449.07
Water	000 m ³	65.90	68.22
Paper ⁺	tonnes	1,926.89	1,797.88
- Compliant	%	90.71	90.02
- Near-compliant	%	0.98	0.17
- Non-compliant	%	8.31	9.81
Waste Disposed to Landfill			
Confidential Waste (non-paper)	tonnes	-	-
General Office Waste	tonnes	279.04	358.60
IT and Electrical	tonnes	0.07	0.05
Total	tonnes	279.11	358.66
Waste Collected for Recycling			
Cans	tonnes	0.19	0.19
Confidential (non-paper)	tonnes	1.33	3.47
General Office	tonnes	51.93	46.20
IT and Electrical	tonnes	54.94	70.52
Mixed Paper and Cardboard	tonnes	668.25	791.26
Plastic	tonnes	0.58	0.71
Total	tonnes	777.23	912.35

Data coverage: Hang Seng Bank's Hong Kong operations. Data has been rounded up to 2 decimal places.

Key: m³: Cubic metres CO₂: Carbon dioxide Gj: Gigajoules

#From 1 Oct 2010 - 30 Sep 2011.

^From 1 Oct 2011 - 30 Sep 2012.

* Data is calculated and verified through the HSBC Group.

⁺Paper: - Compliant Paper: Paper certified by an HSBC Approved Certification Scheme. Currently includes FSC, Canadian Standards Association, etc.
 - Near-compliant Paper: Paper that contains virgin pulp whose source country is known and not on the high-risk country list and/or is completely recycled paper, but is not certified by an HSBC Approved Certification Scheme.
 - Non-compliant Paper: Source country of the virgin portion is unknown or on the high-risk country list, and is not certified by an HSBC Approved Certification Scheme.



Our Commitment COMMUNITY



- > Youth development
- > Arts and culture for all
- > Inspiring Through Sports

Our participation in a diverse range of social development programmes forms part of our commitment to making our community a better place to live. Helping to create a healthy, well-educated and inclusive society will support our sustainable growth by providing new customers, colleagues and business opportunities in the years ahead.

We believe in facilitating wider access to educational and social enrichment opportunities, and in promoting the benefits of a healthy lifestyle. As part of our efforts to encourage an inclusive and tolerant community, we seek to inspire and empower underprivileged groups and break down barriers to social integration.

Our deep local roots are reflected in the long-term partnerships we have established with non-governmental organisations and institutions that are working to improve well-being and achieve lasting positive change.

One major way in which we provide support to our community is through sponsorships and donations. We have given out over HK\$224m in the past decade – including HK\$21.5m in 2012 – to a broad range of community development initiatives.

For 25 years, we have worked hand-in-hand with The Community Chest of Hong Kong, which provides funding for 153 local charities, raising more than HK\$60m. We have participated in The Chest's Dress Casual Day since 1997, matching staff fundraising on a dollar-for-dollar basis – resulting in over HK\$13m in support.

Our e-Donation service makes it easier for customers to offer assistance to those in need, with about HK\$2m in donations benefiting over 60 charitable organisations in Hong Kong in 2012. Since 2001, more than HK\$23m has been donated via this convenient and secure channel.

In line with our emphasis on serving from the heart, our staff regularly give their time to support worthy causes and build the human connections that underpin a thriving and inclusive community.

Bank volunteers and their families contributed more than 25,000 hours in service during 2012. We facilitated this giving back to society by organising about 130 volunteer activities, with a particular focus on underprivileged children, elderly people in need and environmental education.

Hang Seng Volunteer Team

Stanley Cheung, Treasury and Private Banking Operations Department

"Teaching children about nature as a Wetland Park guide has helped to strengthen my communication and management skills. My enhanced skills are proving highly beneficial in my working life."

Polly Law, Customer Contact Centre

"Volunteering is not just about giving – it is also about learning and experiencing."

In partnership with the Regeneration Society, we promote the importance of positive life values through the Hang Seng Bank – Regeneration Society Top Ten Regeneration Warriors Programme, under which 10 'regeneration warriors' shared their experiences in overcoming chronic illness to live rich and rewarding lives.

Hang Seng Bank – Regeneration Society Top Ten Regeneration Warriors Programme

Dr Ko Wing-man, Secretary for Food and Health and Honorary President of the Regeneration Society

"I fully support the concept of the Programme since we are all inspired by the story of each warrior. Their persistence and positive values have helped me understand the true meaning of life."



Youth Development

In investing today for a brighter tomorrow, our corporate responsibility activities place a strong emphasis on education and youth development. We reached out to young people through 150 Bank-supported education programmes and workshops in 2012.

Since 1995, we have allocated more than HK\$56m to our various scholarship schemes, assisting over 1,700 students from Hong Kong and mainland China. In 2008, we implemented our Community Scholarships programme to reward outstanding undergraduate students in Hong Kong who have contributed to community development with a minimum of 100 hours of volunteer service in the previous 12 months.

We also support community service programmes organised by local universities, including The Chinese University of Hong Kong's CUHK-Hang Seng I.CARE Local Service Project Scheme, which in 2012 brought together about 200 students and over 1,300 underprivileged children in a series of mutually enriching interactions, and The Hong Kong Polytechnic University's Hang Seng Best Sustainable Service Project Awards for students.

Through the Hang Seng Bank – Help the Police Fight Youth Crime Competition, we work with the Hong Kong Police to promote good life values and positive civic action. Over 260,000 young people took part in the 2012 competition – an all-time high for this biennial event that we have sponsored since 1994 – which focused on combatting drug-taking, theft and bullying under the theme of 'Power of Friends'.

The Hang Seng Bank – Leaders to Leaders Lecture Series, organised by the Hong Kong Federation of Youth Groups and The University of Hong Kong, gave over 300 secondary school students a valuable opportunity to engage in direct dialogue with prominent community leaders on a broad range of issues related to globalisation.

Our sponsorship of the Ming Pao Student Reporter Programme – which includes a series of media workshops, newsroom visits and reporting activities – has helped almost 7,000 students in the past 16 years learn more about the work of the media while honing their critical analysis and writing skills.

The Tung Wah – Hang Seng Code Kidz Programme Supports Children with Specific Learning Disabilities (SLDs) promoted greater public awareness of the issues for families dealing with the challenges of SLDs, while giving about 600 youngsters the opportunity to explore their potential through alternative ways of learning.

Ming Pao Student Reporter Programme

Lo Yam-kwan, F.6 student from Pooi To Middle School

"The Programme included a five-day internship as a reporter, through which I came to understand the challenges that journalists encounter – I now have even more respect for their professionalism. The Programme also enhanced my critical-thinking skills by encouraging me to analyse the news from multiple perspectives."

Hang Seng Bank – Leaders to Leaders Lecture Series

Poon Chun-kau, Principal of The Hong Kong Federation of Youth Groups Lee Shau Kee College Groups Lee Shau Kee College

"Thank you for arranging transportation for students living in remote areas, enabling them to participate in this valuable learning opportunity."



Arts and culture for all

We believe in broadening young people's exposure to the arts, which play an important role in encouraging creativity, communicating positive life values and stimulating discussion of social issues.

For young people facing special challenges, building greater confidence is an important step in unleashing their talents and abilities.

In partnership with the Jockey Club Creative Arts Centre, we organised over 50 Hang Seng Arts Empowerment Workshops throughout the year, providing 500 underprivileged and disabled children with the chance to express their emotions and develop a stronger sense of self-belief through a range of artistic activities.

Through the Field of Dreams – Hang Seng Bank Student Matinees, organised by The Hong Kong Repertory Theatre, nearly 4,000 students from low-income families learned about the inspiring story of eight amateur Hong Kong footballers who joined with players from the Mainland to enter the 1936 Berlin Olympics. Facilitated by post-performance talks and supporting materials, the theatrical production emphasised the importance of courage and determination in striving for one's dreams.

We also continue to facilitate greater access to the arts through our sponsorship of the Hong Kong Arts Festival Student Ticket Scheme.



Sporting Inspiration

Participation in sports helps promote community health and provides valuable lessons about the importance of teamwork, dedication and fair play.

Since 1991, we have allocated more than HK\$31m to promote table tennis in Hong Kong. Our establishment of the Hang Seng Table Tennis Academy in partnership with the Hong Kong Table Tennis Association in 2001 has since given over 215,000 participants the opportunity to have fun while improving their sporting skills through about 4,000 activities, including training courses, open assessment tests and competitions. We will provide HK\$7.5m in sponsorship to continue our support for the Academy between 2013 and 2015.

Hong Kong's top athletes contribute to community pride and are inspiring role models for our young sporting stars of tomorrow.

Under the Hang Seng Athlete Incentive Awards Scheme, organised in partnership with the Hong Kong Sports Institute, we gave HK\$3.86m in financial rewards to Hong Kong athletes for their outstanding performances at the 2012 London Olympic and Paralympic Games – the highest amount ever awarded to Hong Kong Olympians and Paralympians. Since 1996, the Scheme has given out over HK\$30m to recognise and reward athletic achievement and encourage sporting excellence by Hong Kong athletes at major national and international games.



Hang Seng Athlete
Incentive Awards
Scheme

Lee Wai-sze, bronze medalist in the women's keirin cycling event at the 2012 London Olympic Games

"The Scheme recognises the efforts of Hong Kong athletes and reflects community support for sports development."

Yu Chui-ye, double gold medalist in wheelchair fencing events at the 2012 London Paralympic Games

"The Scheme's cash incentives are recognition of my sporting achievements. I would like to extend my gratitude to Hang Seng and the Hong Kong Sports Institute for their continuous support. Hang Seng's long-term commitment to the Scheme sets an example of how the corporate sector can help athletes."





Additional Information



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VERIFICATION STATEMENT

Scope and Objective

Hong Kong Quality Assurance Agency (HKQAA) has been commissioned by the Hang Seng Bank Limited (Hang Seng) to conduct an independent verification of its 2012 Corporate Responsibility Report (herein referred to as "the Report"). The Report stated Hang Seng's CSR performance and efforts towards sustainable development for the period from 1st January 2012 to 31st December 2012.

The aim of this verification was to provide assurance of the information stated in the Report is accurate, reliable, material and objective.

Methodology

The process used in this verification was based on current best practices. The Report was reviewed against the following criteria:

- The principles of completeness, accuracy, neutrality, comparability and responsiveness, as set out in the Institute of Social and Ethical AccountAbility standard AA1000;
- International Standard on Assurance Engagement 3000 – "Assurance Engagement Other Than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (ISAE 3000); and
- The Global Reporting Initiative (GRI) G3.1 Guidelines and Financial Services Sector Supplement

The verification procedure included reviewing relevant documentation, interviewing responsible personnel with accountability for preparing the Report and verifying the selected representative sample of data and information consolidated in the Report. Raw data and supporting evidence of the selected samples were thoroughly examined.

Conclusion

Based on the outcome of the verification process, it is opined that the Report fulfills the A+ application level of the GRI G3.1 Guidelines.

The information presented in the Report provided a structured, balanced and consistent representation of Hang Seng's CSR performance in the context of sustainable development. We are satisfied that the Report includes factual statements and the data contained within the Report is accurate and reliable. It is a fair and honest representation of Hang Seng's initiatives, targets, progress and performance on its sustainable development achievements.

Signed on behalf of Hong Kong Quality Assurance Agency

Connie Sham
Senior Manager
May 2013

Member HSBC Group