

# Our Corporate Governance

## Our Approach

Our credibility as a leading financial institution in Hong Kong relies on our operational integrity and the transparency of the information we provide to stakeholders. Upholding strong corporate governance, adhering to the highest ethical standards and effectively managing risk are essential to being an accountable, transparent and well-managed company.

Compliance issues are discussed and reviewed by the Board of Directors and various Management Committees. The Board has collective responsibility for promoting the long-term sustainability and success of the Bank by providing forward-thinking leadership within a framework of prudent and effective controls.

The Board upholds high standards of integrity and ethics. Matters relating to internal control and risk management governance, as well as policies and practices on compliance with legal and regulatory requirements, are considered at Board meetings.

In line with HKEx's ESG Guide, the Board is responsible for evaluating and determining the ESG risks faced by the Bank and ensuring that appropriate, effective ESG risk management and internal control systems are in place. Reviews of the effectiveness of the Bank's ESG risk and internal control systems in 2018 were conducted by the business/functional units twice a year. A year-end confirmation, and the content of the CS Report, were endorsed at the Risk Management Meeting and approved by the Board.

Our staff are on the frontlines of maintaining the strength of our corporate reputation and ensuring we always operate ethically, honestly and with full accountability. We provide employee training, covering issues ranging from banking regulations and codes of practice to data privacy.

As part of our zero-tolerance stance on financial crime, we place strong emphasis on training programmes that ensure our staff are well-informed and vigilant regarding the detection and prevention of illicit and illegal activities such as bribery and corruption, money laundering and insider trading. Staff who work in high-risk roles are required to complete additional, specialised training that assists in detecting, deterring and protecting the Bank against financial crime. Our new joiner programme also covers the Bank's strategy and initiatives for managing operational and environmental sustainability.

We have comprehensive systems to ensure the appropriate use and protection of all data, particularly in relation to customer information and privacy issues. Robust 'Know Your Customer' and assessment processes are designed to minimise our risk of establishing relationships with individuals and organisations engaged in activities such as money laundering, terrorism and irresponsible environmental practices, or becoming involved in operations that may involve forced or child labour, or that violate indigenous or other human rights.





# Our Corporate Governance

## Corporate Governance Structure >>>>

Hang Seng is committed to maintaining and upholding high standards of corporate governance with a view to safeguarding the interests of shareholders, customers, employees and other stakeholders.

The Bank follows the module on 'Corporate Governance of Locally Incorporated Authorised Institutions' (CG-1) under the Supervisory Policy Manual (SPM) issued by the Hong Kong Monetary Authority (HKMA). The Bank also fully complies with all the code provisions and most of the recommended best practices set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Listing Rules). In 2018, HKEx announced changes to the Listing Rules which impose, among others, greater demand on the Board or the Nomination Committee when appointing Independent Non-executive Director (INED) which took effect on 1 January 2019. The Bank has taken into account such new requirements when making necessary disclosure. Further, the Bank constantly reviews and enhances its corporate governance framework by making reference to market trends as well as guidelines and requirements issued by regulatory authorities to ensure that it is in line with international and local corporate governance best practices.<sup>Note</sup>

### Board of Directors

As of 31 December 2018, the Board consists of 13 Directors, of whom two are Executive Directors and 11 are Non-executive Directors (NEDs). Among the 11 NEDs, six are INEDs. Five of the 13 Directors are female.

We have exceeded the requirements of the Listing Rules that INEDs should represent at least one-third of the Board. There is a strong independent element on the Board to ensure the independence and objectivity of the Board's decision-making

process as well as its thoroughness and impartiality of the Board's oversight of the Management.

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, including professionalism and integrity, to discharge their 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 their associated risks in order to ensure effective governance and oversight.

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

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

In accordance with the requirement under the Banking Ordinance, approval from HKMA will also be obtained.

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

All Directors are provided with briefings and training on an ongoing basis as necessary to ensure that they have a proper understanding of the Bank's operations and business and are fully aware of their responsibilities under the applicable laws, rules and regulations.

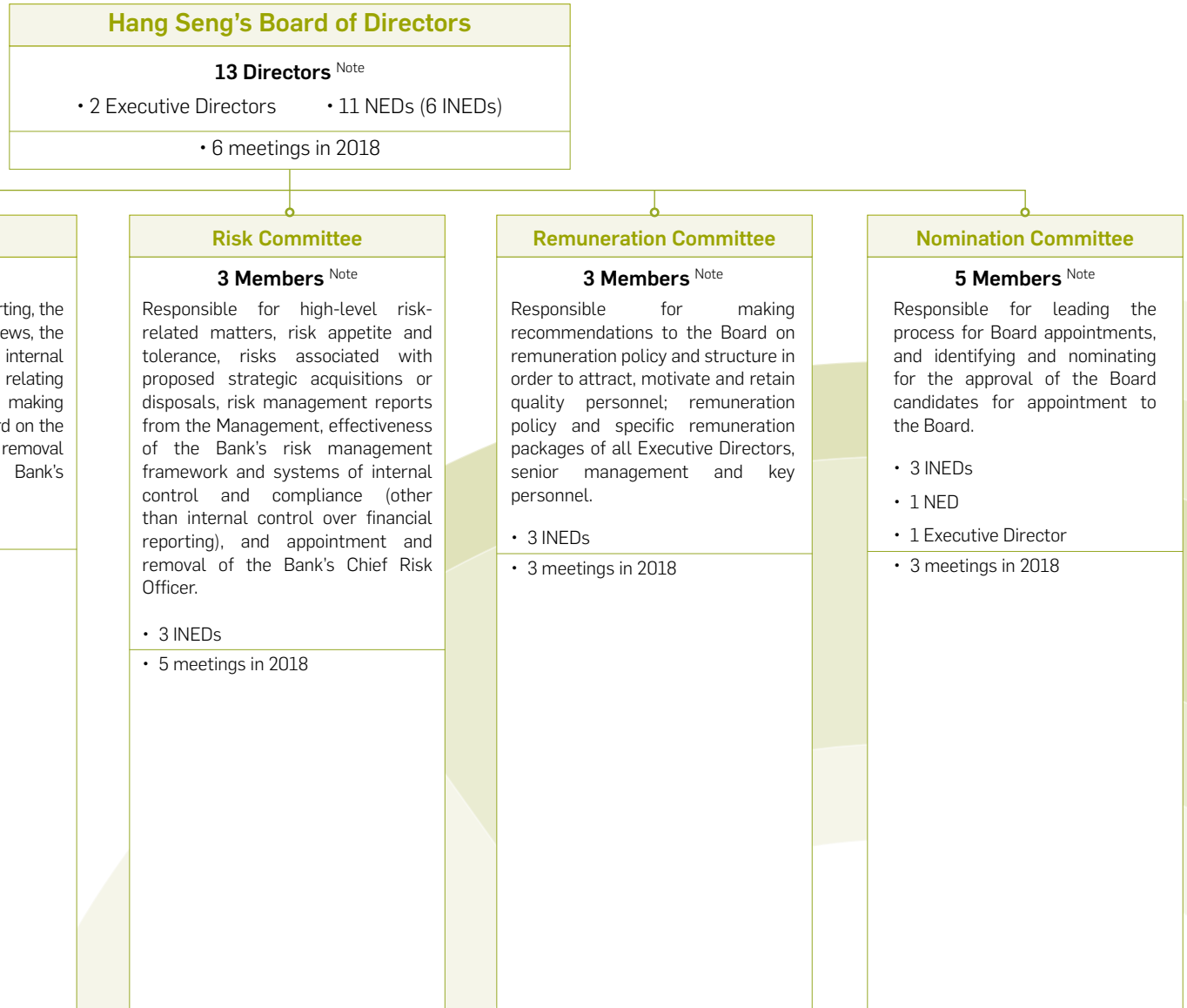
The Directors hold different positions in industry associations, professional institutions, government committees and charitable organisations. Biographical details of the Directors are available on the [Bank's website >>](#).

### Board Committees

The Board has set up five Committees – the Executive Committee, Audit Committee, Risk Committee, Remuneration Committee and Nomination Committee – to assist it in carrying out its responsibilities. Each of these Committees has specific written terms of reference that set out in detail its respective authorities and responsibilities. Each Committee reviews its terms of reference and effectiveness annually. The terms of reference of all the Non-executive Board Committees have been made available on the [Bank's website >>](#).

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

## Corporate Governance Structure >>>>





# Our Corporate Governance

## Corporate Governance Structure >>>>

### Hang Seng Bank (China) Limited – Corporate Governance Structure<sup>Note</sup>

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

#### Board of Directors

As at 31 December 2018, there were six Directors on the Hang Seng China Board, including the Chairman, one Executive Director (who is also Vice-Chairman and Chief Executive of Hang Seng China) and four NEDs. Among the four NEDs, three are INEDs.

#### Board Meetings

The Hang Seng China Board held four meetings in 2018.

#### Board Reports to

The sole shareholder of Hang Seng China is Hang Seng Bank Limited.



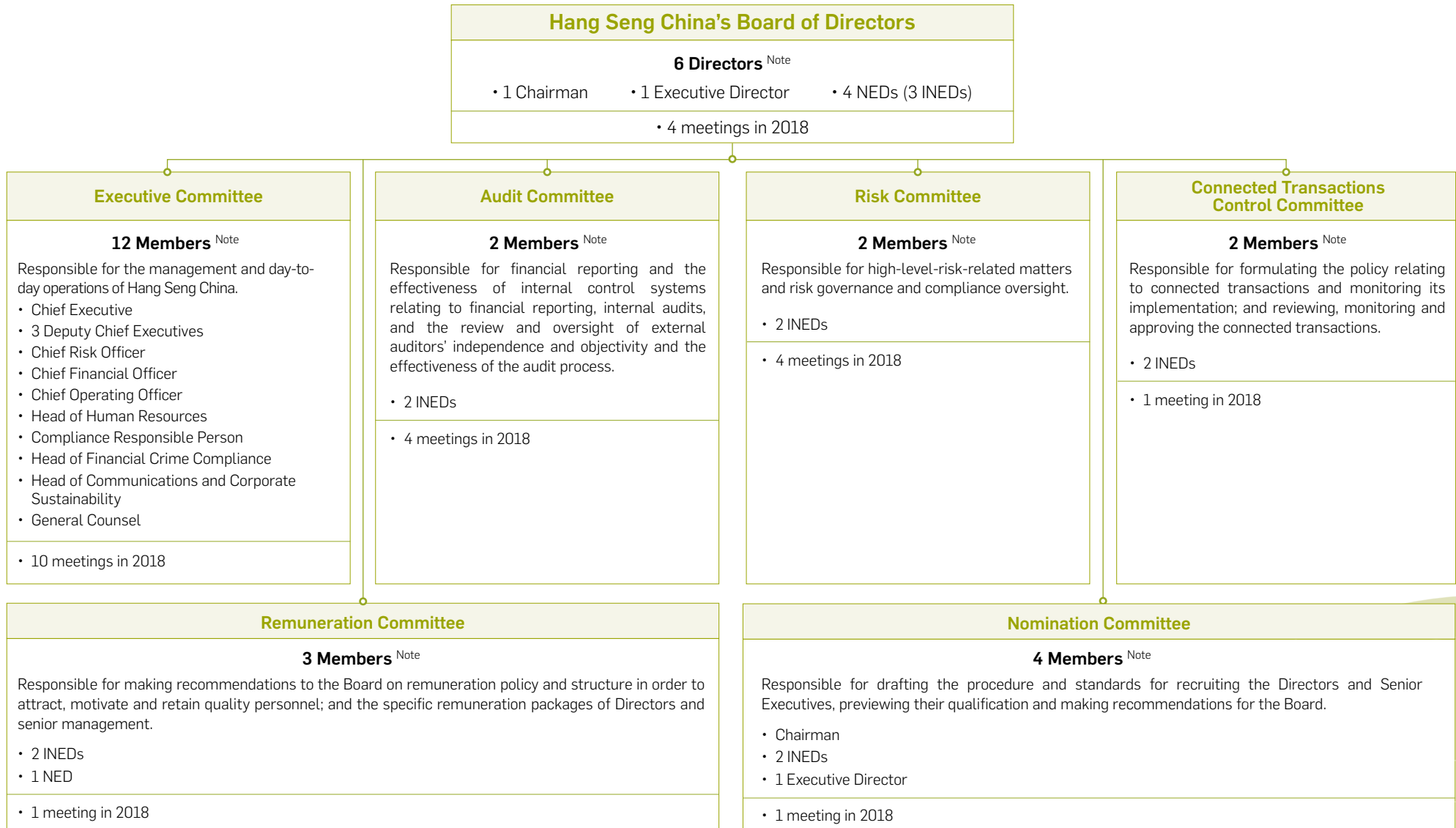
#### Board Committees

As at 31 December 2018, the Hang Seng China Board had set up six committees: the Executive Committee, the Audit Committee, the Risk Committee, the Connected Transactions Control Committee, the Remuneration Committee and the Nomination Committee. Each committee has specific written terms of reference that set out its authorities, responsibilities and meeting rules.

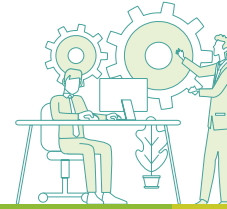
#### Supervisor

Hang Seng China has one supervisor, appointed by and reporting to the sole shareholder, who may sit in on Board meetings. Hang Seng China's supervisor sat in on all Board meetings in 2018.

## Corporate Governance Structure >>>>



Note: As of 31 December 2018.



# Our Corporate Governance

## Risk Management >>>>>

Our activities involve to varying degrees, the measurement, evaluation, acceptance and management of risk or combination of risks. As a provider of banking and financial services, we actively manage risk as a core part of our day-to-day activities. The principal types of risk faced by the Group are credit risk, liquidity and funding risk, market risk, insurance risk, operational risk and reputational risk. Being a principal member of the HSBC Group, we follow the policies and guidelines governing risk management as outlined [here](#)>>.

### Risk Management Framework

Hang Seng's risk management policy is designed to identify and analyse risks, to set appropriate risk limits and to monitor these risks exposures continually by means of reliable and up-to-date management information systems. Our risk management framework/policies and risk appetite statement or major risk limits are approved by the Board of Directors and they are monitored and reviewed regularly by various Board or management committees.

Robust risk governance and accountability are embedded throughout the Bank through an established enterprise risk management framework that ensures appropriate oversight of and accountability for the effective management of risk at all levels of the organisation and across all risk types.

The Board has ultimate responsibility for approving our risk appetite statement and the effective management of risk. The Risk Committee (RC) advises the Board on risk appetite and its alignment with strategy, risk governance and internal controls and high-level risk related matters.

The ongoing monitoring, assessment and management of the risk environment and the effectiveness of risk management policies resides with the Risk Management Meeting (RMM). In addition

to the eight types of risks stipulated in the HKMA's SPMs – namely credit risk, market risk, liquidity risk, interest rate risk, operational risk, legal and compliance risk, reputation risk and strategic risk – the RMM covers business (including insurance) risk, pension risk, security and fraud risk, and sustainability risk. It is responsible for the endorsement and approval of all risk management-related policies.

The Chief Risk Officer (CRO) is the executive accountable for overseeing the development and implementation of the Bank's risk management framework. The CRO is also responsible for ensuring the adoption and oversight of the Enterprise Risk Management Framework within their remit. Where risk management practices do not align with the framework, mitigating action should be undertaken to address any gaps.

Our risk appetite statement is a key component of our risk management framework. The Risk Appetite Statement for 2018 was approved by the Board as advised by the RC. It describes the types and amount of risk that the Bank will accept to achieve its medium and long-term strategic goals.

The RMM regularly reviews and monitors the Group's risk appetite profile against the limits set out in the risk appetite statement and determines appropriate management action in any instances of deviation from the approved limits. The risk appetite profile is also reported to the RC and Board by the CRO, including details of any material deviation and management action where required.

In addition to the existing due diligence process, a Product Oversight Committee reporting to the RMM and comprising senior executives from Risk, Legal, Compliance, Finance and Operations/IT is responsible for reviewing and approving the launch of any new product or service. Each new service and product launch is also subject to an operational risk self-assessment process, which includes identification, evaluation and mitigation of risks arising from the new initiative. Internal Audit is consulted on the internal

control aspect of new products and services in development prior to implementation.

We support international responsible financing principles and sector-specific guidelines to help manage environmental sustainability risks (see [Responsible Banking Services](#)>>). We also require that our business units conduct an overall sustainability risk analysis in relation to all new and existing customers, to ensure the products and services we offer them are in line with our sustainability policies.

We conduct quarterly reviews to monitor compliance with our sustainability risk policies, with respect to corporate customers. As of December 2018, we were fully compliant.

We manage tax risk based on a formal tax risk management framework. We are committed to complying with the spirit and the letter of tax law, and aim to maintain an open and transparent relationship with the tax authorities. We adopted initiatives that aim to increase transparency, including the [US Foreign Account Tax Compliance Act \(FATCA\)](#)>> and the [OECD Standard for Automatic Exchange of Financial Account Information \(the 'Common Reporting Standard'\)](#)>>. We do not employ tax avoidance structures or strategies, e.g. artificially diverting profits to low tax jurisdictions. We principally operate and pay taxes in Hong Kong. The relevant financial information is disclosed in our Annual Report.

We maintain documented Business Continuity Plans (BCP) for critical operations and significant risks, including arrangements for recovery site operations. A clearing and settlement services contingency plan ensures that critical operations will function in emergency situations. Our remote desktop allows staff to work from home without the need to bring their office computers home. This enables the BCP to be flexible and realistic.

## Risk Management >>>>>

### Internal Controls

The primary role of the Internal Audit function (INA) is to help the Board and executive management protect the assets, reputation and sustainability of the Bank. INA provides independent, objective assurance as to whether the design and operational effectiveness of the Bank's framework of risk management, control and governance processes – as designed and represented by management – are adequate.

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

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

### Compliance

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

Matters relating to internal control and risk management governance, as well as compliance with legal and regulatory requirements, are considered at Board meetings. Regular Business Governance Reports on financial crime compliance and regulatory compliance are submitted to the Executive Committee.

The Audit Committee reviews our financial reporting, the nature and scope of audit reviews, and the effectiveness of our systems of internal control and compliance for financial reporting.

In 2018, no non-compliance with laws and/or regulations that resulted in significant fines or non-monetary sanctions was recorded.

### Inside Information

We have a robust framework for the disclosure of inside information, in compliance with the Securities and Futures Ordinance. The framework sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner. It allows shareholders, customers, staff and

other stakeholders to understand the position of the Bank and its subsidiaries. The framework and its effectiveness are subject to regular review.

### Anti-money Laundering and Counter-terrorist Financing, Sanctions, and Anti-bribery and Corruption

We maintain high financial crime controls across our business. Robust systems and measures detect, deter and protect us from involvement in financial crimes such as money laundering, the violation of sanctions, and bribery and corruption. Our protective measures include but are not limited to:

- Our 'Three Lines of Defence' framework (see box below) delineates accountability and responsibility for risk management and the control environment within each line of defence.
- Enhanced financial crime risk management approaches (as determined and stipulated by the HSBC Group) to ensure all relevant risks are within the Bank's risk appetite.

### 'Three Lines of Defence' Framework



**First Line of Defence** – is our business units. They are responsible for identifying, recording, reporting and managing risks, and ensuring controls and assessments are in place to mitigate these risks. Most of Hang Seng's people are in the First Line of Defence, including Risk Owners, Control Owners and Business Risk and Control Managers.



**Second Line of Defence** – is risk management specialists, such as the Sustainability Risk Manager, Wholesale Credit Risk, Risk Stewards and the Operational Risk Function. They are responsible to set and implement policy and guidelines for managing risk, and provides advice, guidance and challenges on effective risk management.



**Third Line of Defence** – is Internal Audit. This independently assures that the Bank manages risk effectively.



## Risk Management >>>>>

To identify bribery or corruption risks, customer accounts are subject to the standard Know Your Customer, Customer Due Diligence, and Transaction Monitoring procedures. All record-keeping is governed by the HSBC Group's record management policies.

Our Customer Due Diligence programme incorporates enhanced due diligence on customers assessed as higher risk, such as Politically Exposed Persons in senior positions, and their relatives and close associates.

Anti-money laundering and crime prevention monitoring procedures are assessed annually by the Financial Crime Compliance team on a global level.

Stringent internal guidelines and procedure manuals detail regulations, guidelines and HSBC Group policies with respect to customer due diligence, monitoring, financial sanctions, terrorist financing and reporting of suspicious transactions. They also cover related staff training and record-keeping. All Bank staff are required to observe these policies and practices.

We take a  
**zero-tolerance**  
approach towards bribery  
and corruption.

We take a zero-tolerance approach towards bribery and corruption. Matters and policies related to anti-bribery and corruption are submitted to the Board and Chief Executive for consideration and comments. The Bank has an Anti-bribery and Corruption team – part of the Financial Crime Compliance division – to oversee such matters. Its main functions include but are not limited to:

- reviewing gifts, entertainment and other advantages received or offered by staff and the Bank;
- monitoring the relationships and performance of third parties that perform services for or on behalf of the Bank and that interact with external parties on behalf of the Bank;
- ensuring charitable giving is not used for illicit activities or as an indirect way to commit an act of bribery;
- ensuring all recruitment is meritocratic, fair and ethical. Hiring of individuals – whether on a temporary or permanent basis, and/or paid or unpaid – must not be used to improperly influence business development or relationships;
- drafting and overseeing compliance with related policies;
- providing relevant recommendations to the Bank's Chief Executive and Board.

To mitigate potential compliance, regulatory and reputational risks associated with violations of sanctions, laws and regulations – as well as the risk of conducting business with sanctioned parties – we have adopted the HSBC Group's Global Sanctions Policy. It applies to our entire business operations, including Hang Seng China and our overseas branches. The Policy was developed with reference to laws, regulations, regulatory guidance and trends in sanctions application and enforcement of the United Nations, the United Kingdom, Hong Kong, the European Union and the United States of America.

To meet the Policy's requirements, Hang Seng has adopted the standards set forth by the HSBC Group. These include:

- complying with all applicable sanctions programmes imposed by HSBC's regulators;
- screening customers, connected parties and other related parties (as defined in the Policy), as well as certain parties taking part in transactions;
- evaluating and, when appropriate, escalating screening results;
- preparing and issuing reports to authorities;
- retaining appropriate sanctions and reporting records;
- designating responsible individuals for programme operation and administration;
- conducting an annual assessment of sanctions risk.

Comprehensive training programmes for all staff include tailored financial crime risk content, to strengthen employees' relevant competences within their roles. All employees are required to complete an e-learning programme that covers anti-bribery and corruption, anti-money laundering and sanctions. Role-specific training must also be completed by passing the assessment.

In 2018, there are no concluded legal cases regarding corrupted practices.

As stipulated by the HSBC Group's Global Anti-Bribery and Corruption Policy, political contributions and recruitment cannot be used to build business relationships. Our political contributions are zero.

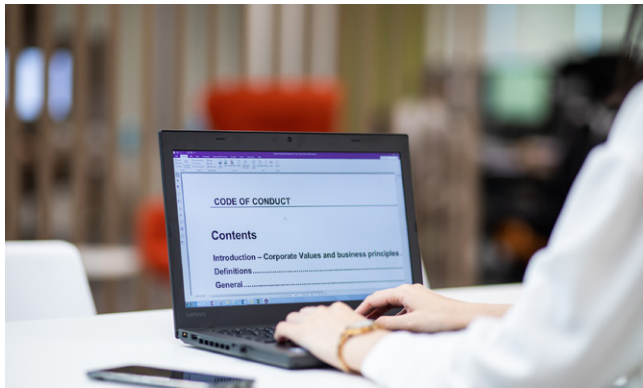
For our policies on anti-money laundering, anti-bribery and corruption, and sanctions, please refer to [this link >>](#).



## Risk Management >>>>>

### Staff Code of Conduct

To ensure the Bank operates according to the highest standards of ethical conduct and professional competence, all staff are required to follow the Code of Conduct. This is accessible by all staff via the Bank's intranet. With reference to applicable regulatory guidelines and other industry best practices, the Code sets out the ethical standards and values to which all staff are required to adhere, and relevant legal and regulatory information. Under our Employees Recognition and Conduct Framework, the performance and behavioural rating assessment of staff is tied in with their conduct.



Topics covered by the Code include the Bank's corporate values and business principles; staff borrowing, lending and dealing; employee bankruptcy; money laundering and sanctions; conduct in obtaining and/or granting business and business facilitation; outside directorships, employment and commercial interests; copyright and intellectual property; security and fraud prevention; social media; equal opportunities; and conflicts of interest.

Our governance framework provides effective oversight and monitoring of our conduct risks. Our culture supports employees and empowers them to consistently do the right thing for our customers. We take sustained efforts to promote courageous integrity such as skip-level exchange with senior management; morning broadcast to deliver key messages on the expected or unacceptable conduct behaviours and embed financial crime risk culture; and share, via the intranet, stories of best practices or good examples of Speak-up Heros. We incentivise positive behaviour and attitude. In 2018, the number of staff who received recognition increased by 80% which resulted in positive adjustment in their year-end variable pay.

### Staff Awareness

A key factor in legal and regulatory compliance, and 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 e-learning programmes that cover anti-money laundering, sanctions, and anti-bribery and corruption issues, to ensure that they are familiar with the relevant laws and regulatory requirements. Other compliance training programmes cover data privacy, cyber security, occupational health and safety, and code of banking practices.

With the continuous, fast growth of digitalisation, to ensure we safeguard the Bank against cyber attacks, ongoing communications and training are provided to raise staff awareness on cyber security and Information security risk.

A briefing session was conducted in 2018 to Conduct Risk Champions – including heads of business and functions, and selected branch management – covering the latest HKMA requirement, recent staff conduct cases and the Bank's culture governance framework. It further equips the management team as the role models for culture, values and behaviours in their respective areas in order to promote sound culture in the Bank.

### Conflicts of Interest

We have established standards, policies and procedures to manage actual or potential conflicts of interest involving our staff. Stringent internal structures ensure adequate segregation of duties and avoid conflicts of interest. Staff in sensitive or high-risk areas are required to adhere to job-specific rules and undergo training regarding how to avoid conflicts of interest in carrying out their duties.

### Whistle-blowing

We encourage the reporting of suspected internal business irregularities, human rights abuse and workplace mistreatment, and provide grievance and whistle-blowing channels specifically for this purpose. The Bank makes every effort to ensure that all employees can raise concerns confidentially without fear of repercussion. We adhere to the [HSBC Statement on Whistle-blowing Arrangements >>>](#).

HSBC Confidential is a safe, simple channel for our staff to raise concerns when they feel the normal channels of escalation are unavailable or inappropriate. All whistle-blowing cases are investigated in accordance with HSBC Group policies and standards by Subject Matter Experts. Acts of retaliation against a whistleblower are not tolerated.

### Data Privacy

Ensuring the privacy of customer information and other data is among our most important responsibilities. It maintains our reputation for good governance and establishes the trust that underpins lasting business relationships. We comply with all data privacy regulations including the Personal Data (Privacy) Ordinance and have formulated Privacy Principles to guide staff



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## Risk Management >>>>>

in protecting customer data. Specific processes for the handling and protection of customer data are set out in the relevant internal procedure manual.

Our 'Notice to Persons and Other Individuals relating to the Personal Data (Privacy) Ordinance' alerts subjects to our collection and use of personal data, the class of transferees of these data and the class of marketing subjects. Our 'Important Message to Readers and Internet Privacy Policy Statement' properly discloses our recommendations of best practice regarding the tracking and use of cookies on our websites.

Data privacy matters are overseen by the Chief Data Officer, Head of Regulatory Compliance and Data Protection Officer. Data Controlling Officers have been appointed at functional and business unit levels to promote data protection and disseminate information on relevant new guidelines and developments. (See [Customer Privacy section](#) >>> in Our Customers)

## Cyber Security

Cyber attacks are a key emerging threat to us and the financial industry. Banks are high-profile targets for cyber criminals, who seek financial gain, personal information and disruption.

The potential impacts of cyber attacks include financial loss, reputational damage and loss of customers. We have taken a series of actions to strengthen our cyber security controls, to safeguard the Bank and customers, and to ensure the resilience of our service.

We have established a governance forum to oversee cyber security at the Bank. Its primary responsibilities are to ensure cyber security risks are managed effectively, and to oversee issues and activities related to information security risks.

We completed an assessment of the Bank's inherent risks and the maturity levels of its cyber security measures in 2017, in accordance with HKMA's Cyber Resilience Assessment Framework. Most of the gaps identified in that assessment were remediated and closed in 2018.

We engaged qualified independent testers to simulate intelligence-led cyber attacks on our critical assets in 2018. All the test scenarios were defended, with no material issues identified.

We continue to strengthen and significantly invest in preventing, detecting and responding to the ever-increasing and ever more sophisticated threat of cyber attacks. Specifically, we enhance our security event detection, incident-response processes, and our protection against malware, denial-of-service attacks and data leakage.

We share intelligence with law enforcement and the industry. This improves our understanding of – and ability to respond to – the evolving threats faced by us and our industry peers.

In addition to the cyber security controls, we have defined policies to classify and protect physical information. We conduct clear-desk checking to ensure that physical information is secured to the Bank's standard.

## Equal Opportunities, Non-discrimination and Human Rights

We comply with all relevant Hong Kong labour laws. We assess potential new client and supplier relationships to minimise the risk of indirectly facilitating the violation of any individual's labour or human rights. No incidents of discrimination, or violation of the rights of indigenous peoples, were reported in 2018.

We adopted the [HSBC Statement on Human Rights](#) >>, which follows the UN Guiding Principle's Protect, Respect and Remedy framework. We recognise that human rights issues are complex and that the roles and responsibilities of business and other stakeholders are the subject of an ongoing international dialogue. We are open and willing to engage in this dialogue where appropriate and constructive.

In 2018, we provided all new joiners with a total of 3,200 hours of training on equal opportunities, diversity and human rights-related issues that are relevant to our operations and that create a positive working environment. All security personnel received formal training in human rights policies, specific procedures and their security applications. (See [Equal Opportunities, Diversity and Inclusion section](#) >> in Our People)

We follow a [Board Diversity Policy](#) >> adopted by the Board in 2013.

## Competition Ordinance

The Competition Ordinance came into effect in Hong Kong on 14 December 2015. Our legal division continues to lead an extensive programme of risk mitigation actions across all businesses and functions to ensure we fully comply with the Ordinance. This work complements our ongoing wider programme of competition risk mitigation. Training to enhance staff knowledge of the requirements of the Ordinance and continues on a regular basis.

In 2018, we had no legal actions regarding anti-competition behaviour or anti-trust and monopoly violations.

## Responsible Banking Services >>

### Lending and Investment Policies

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

Our credit evaluation process includes assessment of any potential environmental or social sensitivity-related risks. We monitor our clients' implementation of, and compliance with, environmental and social requirements. In cases of material deviation from the required standards, we work with customers to establish a target date for compliance. Where no progress is made, or in instances of a serious breach, we exit the relationship. (See more in Concerted Efforts below)

For environmental risk matters, we follow the sustainability risk requirements in the Bank's Corporate Lending Guidelines. We have adopted the Equator Principles: a set of voluntary guidelines that define a process for implementing common sustainability standards in project finance.

We have specific guidelines on lending to businesses operating in environmentally sensitive sectors such as chemicals, energy, forestry, freshwater, mining and metals, agricultural commodities, and World Heritage Sites and Ramsar wetlands. These guidelines are refined and updated as required. We also have a Defence Equipment Policy that clarifies the Bank's approach to companies connected to the weapons industry. (See [Responsible Financing >>>](#))

We disseminate updates on environmental or social risk-related policies to all relevant parties on a timely basis. The latest policies and guidelines can be accessed by relevant members of staff through the Bank's intranet at any time. We also organise sustainability risk seminars to increase staff awareness. Training programmes for environmental and social policies are in place – including as part of our New Joiners Induction Programme – to improve staff competency in implementing these policies and procedures across our business.

We continuously enrich our investment funds suite in both manufacturing and distribution perspectives to incorporate products with ESG spirit. We keep track of the regulatory and industry developments and explore ways to embed ESG factors in our product selection process.



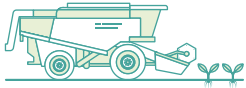
### Concerted Efforts

Environment-related impact assessments are a continuous process and have been incorporated into our standard credit evaluation process. Examples include sustainability risk ratings for credit approvals by Group Risk Reputational Risk and Client Selection Committee. Regular tracking reports are compiled by Risk and Compliance, with input from business units. Customers unable to comply with our environmental policies and requirements by a specified deadline must obtain our formal approval for a temporary exemption or extension. Failing this, our managers will begin arrangements to exit the relationship.

We are concerned about deforestation, which impacts on the habitat of millions of species. We require customers in the forestry sector to obtain 100% international certifications (FSC/PEFC certified) for their activities in high-risk countries.

Having identified two customer groups who had yet to obtain 100% certification, our Commercial Banking team proactively engaged them to work out implementation plans. We successfully assisted both customers in certifying all operations within a year.

## Responsible Banking Services >>



### Agricultural Commodities Sector

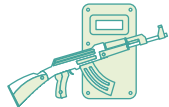
Requires us to undertake special assessments of customers involved with soy production, cattle ranching or rubberwood production in certain high-risk countries. Enhanced governance in this sector aims to ensure that we only maintain relationships with customers who engage in sustainable development. They must operate in accordance with international standards and best industry practice, and provide a public commitment.

### Chemicals Industry Sector



Highlights the international, regional and national standards we adhere to when lending to the chemical industry. It outlines how we work with our customers to achieve sustainable chemical manufacturing.

### Defence Equipment Sector

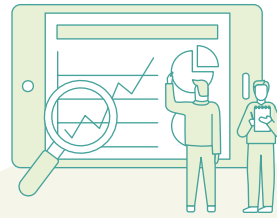


Establishes our position with regard to companies involved in the manufacture and sale of weapons.

### Energy Sector



Establishes sustainability standards for our involvement in the energy sector, and for providing financial services to energy sector projects. We have stopped financing energy-intensive/high polluting industries with new coal-fired power plants, new offshore oil or gas projects in the Arctic, new greenfield oilsands projects, etc.



## Responsible Financing

Our belief in sustainable business practices means that we carefully assess potential environmental and social risks when deciding whether to make a loan or investment. Specific sustainability risk policies deal with sensitive sectors such as forestry, agriculture, mining, energy, property and infrastructure development. We have mechanisms to ensure our customers remain in compliance with these policies.

We adopted HSBC's policies on forestry, energy, agricultural commodities and mining.

[More details >>](#)

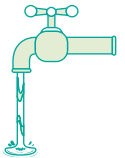
### Forestry Sector

Outlines how we work with customers to promote sustainable forestry.



### Freshwater Infrastructure Sector

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



### Mining and Metals Sector

Sets out the principles and standards that govern our involvement in the mining and metals sector, including exploration, extraction, mine closure and reclamation, and primary processing. It also provides guidance regarding the assessment of customers linked to human rights abuses, and of customers with poor track records on work-related fatalities and accidents. We will not provide financing for new thermal coal mines, or new customers whose business includes thermal coal mines or mountaintop coal mining in the US.



### World Heritage Sites and Ramsar Wetlands

Aims to ensure we avoid supporting projects that may damage culturally important or ecologically sensitive areas.

