

Corporate Governance Report

Corporate Governance Principles and Practices

Hang Seng Bank Limited (the “Bank”) 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 has followed 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 has also fully complied 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 (“HKEx”) (the “Listing Rules”) throughout the year of 2021.

Further, to ensure that it is in line with international and local corporate governance best practices, the Bank constantly reviews and enhances its corporate governance framework by making reference to market trend as well as guidelines and requirements issued by regulatory authorities. Throughout 2021, the Bank has also implemented various Group governance initiatives to streamline parent/subsidiary oversight framework, and enhance meeting efficiency and reporting quality.

Board of Directors

The Board has collective responsibilities for promoting the long-term sustainability and success of the Bank by providing entrepreneurial leadership within a framework of prudent and effective controls. In doing so, the Board commits to high standards of integrity and ethics.

According to the Board's terms of reference, specific matters reserved for the Board's consideration and decision include:

- strategic plan and objectives
- annual operating plan and performance targets
- annual and interim financial reporting
- capital plans and management
- risk appetite statement and profile update
- appointment and oversight of senior management, and succession plans for the Board and senior management
- internal control and risk management governance structure
- corporate culture, values and standards
- environmental, social and governance (“ESG”) strategy and governance framework
- effective audit functions
- policies, practices and disclosure on corporate governance and remuneration
- significant policies and plans and subsequent changes
- acquisitions, disposals and purchases above predetermined thresholds
- whistleblowing policy and mechanism

Chairman and Chief Executive

The roles of the Chairman and Chief Executive of the Bank are complementary, but importantly, they are distinct and separate with a clear and well established division of responsibilities. Details of their respective roles are set out in the Board's terms of reference.

The Chairman of the Board, who is an Independent Non-executive Director (“INED”), is responsible for the leadership and effective running of the Board and for ensuring that decisions of the Board are taken on a sound and well-informed basis and in the best interest of the Bank. In addition, as the Chairman of the Board, she is also responsible for ensuring that all Directors are properly briefed on all issues currently on hand and receive adequate, accurate and reliable information in a timely manner. The Chairman possesses the requisite experience, competencies and personal qualities to fulfill these responsibilities.

The Chief Executive, who is an Executive Director (“ED”), is responsible for implementing the strategy and policy as established by the Board. The Chief Executive is also responsible for the management and day-to-day running of the Bank's business and operations, as well as leading and chairing the Executive Committee.

Board Composition

As at the date of this Annual Report, the Board comprises 10 Directors, of whom one is ED and nine are Non-executive Directors ("NEDs"). Among the nine NEDs, five are INEDs. 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 the thoroughness and impartiality of the Board's oversight of the Management. Further, out of the 10 Directors, four are female Directors, indicating a strong gender diversity on the Board.

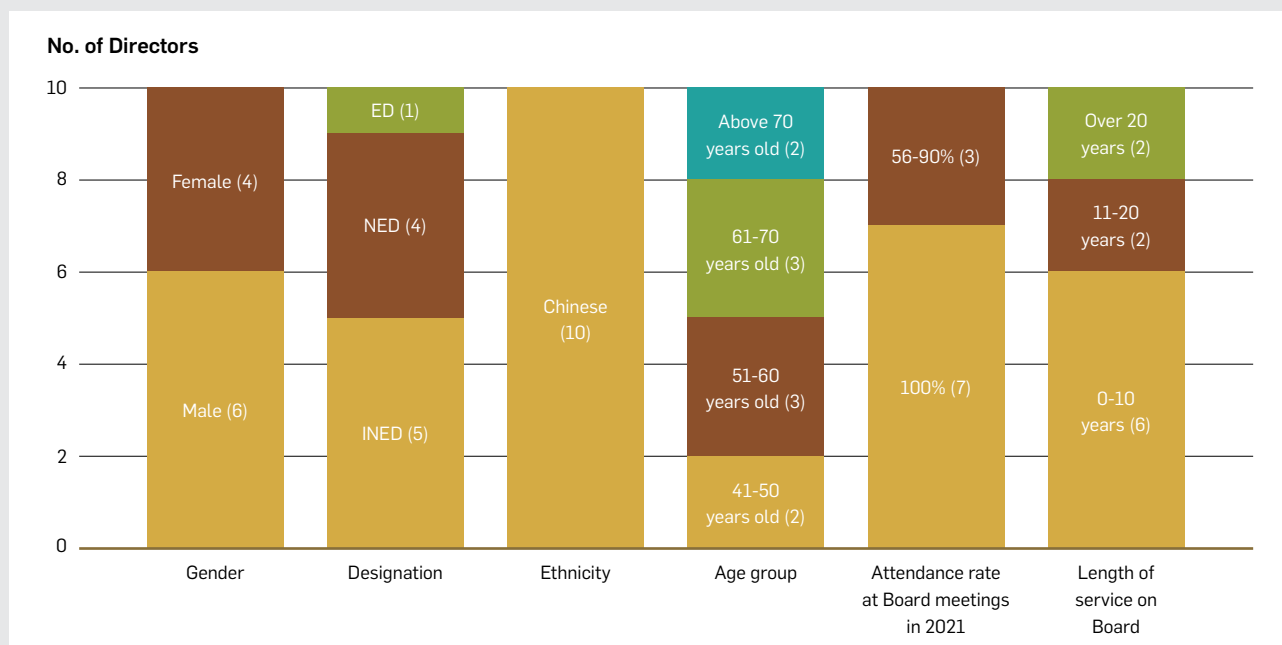
The Board possesses, both as individual Directors and collectively, appropriate experience, competencies and personal qualities, including professionalism and integrity, to discharge its responsibilities adequately and effectively. In addition, the Board collectively has adequate knowledge and expertise relevant to each of the material business activities that the Bank pursues and the associated risks in order to ensure effective governance and oversight.

Members of the Board, who come from a variety of different backgrounds, have a diverse range of business, banking and professional expertise. Biographical details of the Directors, together with information relating to the relationship among them, are set out in the section "Biographical Details of Directors and Senior Management" in this Annual Report.

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 which has been made available on the Bank's website (www.hangseng.com) for better transparency and governance. Board appointments are based on merit and candidates are considered against objective criteria, having 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. The Board considers that its diversity, including gender diversity, is a vital asset to the business.

The Board has also adopted a Nomination Policy which has been made available on the Bank's website (www.hangseng.com) to emphasise the Bank's commitment on transparent nomination process in the selection of candidates for Board appointment.

An analysis of the Board's current composition as at the date of this Report is set out in the following chart:



The Bank has maintained on its website (www.hangseng.com) and on the website of HKEx (www.hkexnews.hk) an updated list of its Directors identifying their roles and functions and whether they are INEDs. INEDs are also identified as such in all corporate communications that disclose the names of the Bank's Directors.

Further, the Bank has received from each of the INEDs an annual confirmation of his/her independence. The independence of the INEDs has been assessed in accordance with the guidelines set out in Rule 3.13 of the Listing Rules, and guidelines issued by HKMA. Following such assessment, the Board has affirmed that all the INEDs continue to be independent, including those whose terms of appointment are over nine years.

Board Process

Board meetings are held about six times a year and no less than once every quarter. Additional Board meetings, or meetings of a Board committee established by the Board to consider specific matters, can be convened, when necessary.

Schedule for the regular Board meetings in each year, together with the standing agenda for such meetings, are made available to all Directors before the end of the preceding year. In addition, notice of meetings will be given to all Directors at least 14 days before each regular meeting.

Other than regular meetings, the Chairman also meets with NEDs without the presence of EDs at the end of each regular Board meeting, to facilitate an open and frank discussion among the NEDs on issues relating to the Bank. The Board also held an annual talent session with the Chief Executive and Head of Human Resources to review the Bank's broader top team.

The Board meets with the representatives of HKMA annually to maintain a regular dialogue with the regulator where HKMA shares with the Board their overall supervisory assessment of the Bank and key supervisory focuses on the banking industry in general.

Meeting agenda for regular meetings are set after consultation with the Chairman and the Chief Executive. All Directors are given an opportunity to include matters in the agenda.

Throughout 2021, the Bank has continued to embed HSBC Group's governance requirements to enhance meeting efficiency and reporting quality. Those enhanced governance requirements have proved to achieve a step change in the quality and consistency of reporting. Better planning and inputs to meetings lead to better discussions, and more agile and well-informed decision making, resulting in a more effective use of the Board and Management time. In addition, the Group's Subsidiary Accountability Framework ("SAF") was updated in 2021 to further enhance the clarity and consistency of governance practices adopted across all entities within the Group. The Bank has conducted a gap analysis to confirm the Bank's compliance with the SAF requirements and provided the year-end attestation of SAF compliance following an annual review.

Directors make their best efforts to contribute to the formulation of strategy, policies and decision-making by attending the Board meetings in person or via telephone or video-conferencing facilities. During 2021 and for the sake of health and safety under the prevailing pandemic, the Board and Board Committees had mostly met in hybrid mode with Directors having the option to join either in person or by zoom, with the meeting papers uploaded onto an electronic board portal for easy access by Directors.

Minutes of Board meetings with details of the matters discussed by the Board and decisions made, including any concerns or views of the Directors, are kept by the Company Secretary and are open for inspection by Directors.

In addition to the regular financial and business performance reports submitted to the Board at its regular meetings, the Board also receives financial and business updates with information on the Bank's latest financial performance and material variance from the Bank's annual operating plan during those months where no Board meetings are held. Directors can therefore have a balanced and comprehensive assessment of the Bank's performance, business operations, financial position and prospects throughout the year.

The Board reviews and evaluates its work process and effectiveness annually, with a view to identifying areas for improvement and further enhancement. The Board also regularly reviews the time commitment required from NEDs.

All Directors have access to the EDs as and when they consider necessary. They also have access to the Company Secretary who is responsible for ensuring that Board procedures, and related rules and regulations, are followed.

Under the Articles of Association of the Bank, a Director shall not vote or be counted in the quorum in respect of any contract, arrangement, transaction or other proposal in which he/she or his/her associate(s), is/are materially interested.

The Board has adopted a Policy on Conflicts of Interest. The Policy identifies the relationships, services, activities or transactions in respect of which conflicts of interest may arise and sets out measures for prevention or management of such conflicts. The Policy also contains an objective

compliance process for implementing the Policy, which includes notification by a Director of conflicts or potential conflicts, and a review/approval process. In addition, the Policy also sets out provisions of the Board's approach to dealing with any non-compliance with the Policy.

The Board has been applying technology designed specifically around the Board to help the Directors manage their time more efficiently, while staying connected to the Board and other Directors in order to discharge their responsibilities effectively and securely.

During 2021, the Board held seven meetings (including one meeting with HKMA) and the important matters discussed at Board meetings included:

<p>Strategic Planning</p> <ul style="list-style-type: none"> – Strategic Plan 2021 – 2024 with (a) refreshed strategic pillars; and (b) 2022 Targets and Action Plan – Quarterly updates of Strategic Plan 2018 – 2020 – Strategic Plan of Hang Seng Indexes Company Limited (2022 – 2026) – Fintech Innovation Strategy – Environmental, Social and Governance (“ESG”) Strategy and Implementation Plan for 2021 and beyond, as well as 2020 ESG Report 	<p>Financial and Business Performance, and Capital Planning</p> <ul style="list-style-type: none"> – financial statements for the year ended 31 December 2020 – interim financial statements for the six months ended 30 June 2021 – declaration of the fourth interim dividend for year 2020 and first three interim dividends for year 2021 – annual operating plan and capital plan for year 2021 – reports on financial and business performance – internal capital adequacy assessment process – internal liquidity adequacy assessment process – issuance of non-capital loss-absorbing capacity debt instrument
<p>Risk Management</p> <ul style="list-style-type: none"> – 2021 review of risk appetite statement and framework, with quarterly risk appetite profile update and 2021 mid-year review of the risk appetite statement – risk management framework refresh and risk governance structure – 2021 HKMA climate risk stress testing results and 2021 HKMA supervisor driven stress test scenarios and results – internal control system assessment – Basel Committee on Banking Supervision 239 compliance framework and self-assessment results – update on cyber security risk and cyber resilience assessment framework – semi-annually review of large credit exposures and risk concentrations – update on climate risk management – significant risk policies, plans and frameworks – annual review of credit approval authority limits and overall credit limit to the HSBC Group companies – update on Interbank Offered Rate transition – governance on IT and Cloud adoption 	<p>Governance and Culture</p> <ul style="list-style-type: none"> – Subsidiary Accountability Framework 2021 and outcome of gap analysis – Board succession planning – HASE Non-executive Director Expenses Framework – review of the effectiveness of the Board and Board Committees, including the revised terms of references – review of the structure, size and composition of the Board and the Non-executive Board Committees – new and revised SPMs issued by HKMA from time to time – HKMA Supervisory Review Process and CAMEL Rating Review – entry into a one-off connected transaction between Hang Seng Insurance Company Limited and entities of the HSBC Group – update on Culture Review of the Bank and annual review of the Bank's Culture Statement

Human Resources and Remuneration

- new Group Purpose and Values
- annual review of the remuneration policy and remuneration system
- annual review of alignment of risk and remuneration
- pay review for 2021 and variable pay for 2020
- review of fees payable to NEDs and the Committee Chairmen/members of the Bank and its subsidiaries
- annual review of the remuneration of EDs, Senior Management, Key Personnel and Heads of Control Functions
- appointment of NED and INEDs and Board Committee Chairmen and members
- appointment and remuneration packages of Senior Management
- succession planning for the Board and Senior Management
- performance management relating to Senior Management
- re-election of Directors
- terms of appointment of NEDs
- review of independence of INEDs

Appointment and Re-election of Directors

Pursuant to the Bank's Nomination Policy, the Bank uses a formal, considered and transparent procedure for the appointment of new Directors. With the adoption of the Bank's Nomination Policy, greater demand has been imposed on the Board and/or the Nomination Committee on the independence and board diversity, amongst other corporate governance issues for better board effectiveness and diversity.

Before a prospective Director's name is formally proposed, opinions of the existing Directors (including the INEDs) will be solicited. The proposed appointment will first be reviewed by the Nomination Committee, taking into account the balance of skills, knowledge and experience on the Board. Upon recommendation of the Nomination Committee, the proposed appointment will then be reviewed and, if thought fit, approved by the Board after due deliberation. If necessary, the Bank may also engage external search firm to assist in the sourcing and identification of appropriate candidates for Board appointments.

Pursuant to Group policy, the Bank will conduct enhanced vetting for non-employee NEDs before his/her appointment and thereafter once every three years, as one of the measures to verify the continual fitness and propriety of the NEDs.

In accordance with the requirement under the Banking Ordinance, approval from HKMA will be obtained for appointment of new Directors.

The Bank issues appointment letters to each NED, setting out the terms and conditions of their appointment, including the time commitment expected of them. Additional time commitment is necessary if the NEDs also serve on committee(s) of the Board.

All new Directors are subject to election by 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 AGMs of the Bank.

According to SAF requirement on the term of appointment of NEDs, term of appointment of each NED is three years and NEDs should serve no more than two three-year terms with any extension subject to rigorous governance process. In renewing the term of appointment of each NED, the Board reviews whether such NED remains qualified for his/her position.

Responsibilities of Directors

Directors have full and timely access to all relevant information about the Bank so that they can discharge their duties and responsibilities as Directors. In particular, through regular Board meetings and receipt of regular financial and business updates, all Directors are kept abreast of the conduct, business activities and development, as well as regulatory updates applicable to the Bank.

There are established procedures for Directors to seek independent professional advice on matters relating to the Bank where appropriate. All costs associated with obtaining such advice will be borne by the Bank. In addition, each Director has separate and independent access to the Bank's Management.

The Bank has adopted a Code for Securities Transactions by Directors on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (set out in Appendix 10 to the Listing Rules) with periodic review. Specific enquiries have been made with all Directors who have confirmed that they have complied with the Bank's Code for Securities Transactions by Directors throughout the year 2021.

Directors' interests in securities of the Bank and HSBC Group as at 31 December 2021 have been disclosed in the Report of the Directors set out in this Annual Report.

Appropriate Directors' liability insurance cover has also been arranged to indemnify the Directors against liabilities arising out of the discharge of their duties and responsibilities as the Bank's Directors. The coverage and the sum insured under the policy are reviewed annually. Further, the Bank's Articles of Association provide that Directors are entitled to be indemnified out of the Bank's assets against claims from third parties in respect of certain liabilities.

Induction and Training for Directors

Induction programmes on the following key areas will be arranged for newly appointed Directors so that they can discharge their responsibilities to the Bank properly and effectively:

- directors' duties and responsibilities
- business operations and financial position
- risk management and internal control
- governance structure and practices
- control and support functions

Further, all Directors are provided with briefings and trainings on an on-going 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. Such briefings and trainings are provided at the Bank's expense. The Bank maintains proper records of the briefings and trainings provided to and received by its Directors.

In addition, all Directors are provided with a "Memorandum of Directors", which sets out the scope and nature of Directors' duties and liabilities, particulars of Group policies and local regulatory and statutory requirements of which the Directors must be aware. Such memorandum is updated from time to time so as to reflect the latest internal policies/guidelines, regulatory/statutory requirements, and best practices.

During the year, Directors received briefings and trainings on the following topics:

- Artificial intelligence – latest technology and infrastructure
- HKMA's Article on "Hong Kong as an International Financial Centre – Facts over Myths"
- Responding to financial statement fraud allegations
- Global summit of the climate governance initiatives
- Insights on global index business
- Update on Interbank Offer Rate transition and reform
- Green finance and climate risk for banks
- Deep dive of fraud cases
- Climate risk briefing and Chapter Zero Climate Webinar
- Three-part event series to net zero including (1) How financial institutions are tackling the net zero challenge; (2) Financial disclosures and the management and integration of climate considerations into reporting: Reviewing the substance behind the reports; and (3) Climate change: Risk management and scenario analysis
- Requirement under Banking (Exposure Limits) Rules
- Update on cyber security risk
- Stewardship and sustainability across Asia Pacific – investor's perspective
- Insights on ESG
- HSBC Global Mandatory Training: Health, Safety and Wellbeing, Risk Management, Cyber, Data Privacy, Sustainability, Financial Crime Risk, Anti-bribery and Corruption, Anti-money Laundering, Sanctions, Fraud and Tax Transparency, and "Living our Values" series including Data Literacy, Workplace Harassment and Competition Law.

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To summarise, Directors received briefings and trainings on the following key areas to update and develop their skills and knowledge during year 2021:

Directors	Training Areas					
	Governance matters	Regulatory matters	Business/ Management	Risk and Control	Digital and Technology	ESG
INEDs						
Irene Y L Lee ^{Note 1}	✓	✓	✓	✓	✓	✓
John C C Chan	✓	✓	✓	✓	✓	✓
L Y Chiang	✓	✓	✓	✓	✓	✓
Clement K M Kwok ^{Note 2}	✓	✓	✓	✓	✓	✓
Michael W K Wu	✓	✓	✓	✓	✓	✓
NEDs						
Kathleen C H Gan	✓	✓	✓	✓	✓	✓
David Y C Liao ^{Note 3}	✓	✓	✓	✓	✓	✓
Vincent H S Lo	✓	✓	✓	✓	✓	✓
Kenneth S Y Ng	✓	✓	✓	✓	✓	✓
ED						
Diana Cesar ^{Note 4}	✓	✓	✓	✓	✓	✓

^{Note 1} Irene Y L Lee, current INED, was appointed as Chairman of the Board with effect from 27 May 2021.

^{Note 2} Clement K M Kwok was appointed as INED with effect from 27 May 2021.

^{Note 3} David Y C Liao was appointed as NED with effect from 1 September 2021.

^{Note 4} Diana Cesar was appointed as ED and Chief Executive with effect from 1 September 2021.

Delegation by The Board

Board Committees

The Board has set up five Committees, namely, Executive Committee, Audit Committee, Risk Committee, Remuneration Committee and Nomination Committee, to assist it in carrying out its responsibilities.

The current composition of the Board Committees as at the date of this Report is as follows:

Board				
Executive Committee	Audit Committee	Risk Committee	Remuneration Committee	Nomination Committee
Diana Cesar ^{Note 5} (Chairman)	Clement K M Kwok ^{* Note 8} (Chairman)	Kenneth S Y Ng ^{# Note 9} (Chairman)	John C C Chan [*] (Chairman)	Irene Y L Lee ^{* Note 10} (Chairman)
Vivien W M Chiu ^{Note 6}	L Y Chiang [*]	Irene Y L Lee ^{* Note 10}	L Y Chiang [*]	Diana Cesar ^{Note 5}
Rose M Cho	Irene Y L Lee [*]	Michael W K Wu [*]	Irene Y L Lee ^{* Note 10}	John C C Chan [*]
Liz T L Chow				David Y C Liao ^{# Note 11}
Donald Y S Lam				Michael W K Wu [*]
Gilbert M L Lee				
Rannie W L Lee ^{Note 7}				
Andrew W L Leung				
Godwin C C Li				
Ryan Y S Song				
Christopher H K Tsang				
Elaine Y N Wang				
May M K Wong				

* INEDs

NEDs

^{Note 5} Diana Cesar was appointed as Executive Committee Chairman and Nomination Committee member, both with effect from 1 September 2021.

^{Note 6} Vivien W M Chiu was appointed as Executive Committee member with effect from 1 January 2022.

^{Note 7} Rannie W L Lee was appointed as Executive Committee member with effect from 1 January 2022.

^{Note 8} Clement K M Kwok was appointed as Audit Committee Chairman with effect from 27 May 2021.

^{Note 9} Kenneth S Y Ng was appointed as Risk Committee Chairman with effect from 3 November 2021.

^{Note 10} Irene Y L Lee was re-designated as Risk Committee member, and appointed as Remuneration Committee member, and Nomination Committee Chairman, all with all effect from 27 May 2021.

^{Note 11} David Y C Liao was appointed as Nomination Committee member with effect from 1 September 2021.

Each of these Committees has specific written terms of reference, which set out in detail their 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 (www.hangseng.com).

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.

Executive Committee

The Executive Committee meets approximately nine times a year and operates as a general management committee under the direct authority of the Board. The Executive Committee exercises the powers, authorities and discretions as delegated by the Board in so far as they concern the management and day-to-day running of the Bank in accordance with its terms of reference and such other policies and directives as the Board may determine from time to time. The Executive Committee also sub-delegates credit, investment and capital expenditure authorities to its members and the Bank's senior executives.

To further enhance the Bank's risk management framework and in line with best practices, the Bank has set up a Risk Management Meeting, a risk meeting of the Executive Committee, to provide recommendations and advice to the Bank's Chief Risk Officer on enterprise-wide management of all risks, policies and guidelines for the management of risk within the Group. Minutes of Risk Management Meetings are provided to the Executive Committee and the Risk Committee for review and oversight purpose.

Audit Committee

The Audit Committee meets at least four times a year with the Bank's executives including the Chief Financial Officer, Chief Risk Officer, Head of Audit, and representatives from the Bank's external auditor. The Committee reviews, among other things, the Bank's financial reporting, the nature and scope of audit reviews, the effectiveness of the systems of internal control and compliance relating to financial reporting, and the operation and effectiveness of whistleblowing policies and procedures. The Audit Committee is also responsible for making recommendations to the Board on the appointment, re-appointment, removal and remuneration of the Bank's external auditor. In addition, the Bank has adopted HSBC Group's *HSBC Confidential* whereby all staff members may report incidents of improprieties on a strictly confidential and secured basis so that the same can be timely and thoroughly investigated and appropriate actions can be taken promptly.

The Audit Committee reports to the Board following each Audit Committee meeting, drawing the Board's attention to significant issues or matters of which the Board should be aware, identifying any matters in respect of which it considers that action or improvement is needed, and making relevant recommendations.

During the year, the Audit Committee held four meetings and the major work performed by the Committee was as follows:

- reviewed the financial statements for the year ended 31 December 2020 and the related documents, and internal control recommendations and audit issues noted by the Bank's external auditor
- reviewed the interim financial statements for the six months ended 30 June 2021 and the related documents, and the issues noted by the Bank's external auditor
- reviewed and approved the quarterly banking disclosure statements for reporting periods ended 31 December 2020, 31 March 2021, 30 June 2021 and 30 September 2021
- reviewed the annual operating plan and capital plan for year 2021 and the revised internal capital targets for 2021 and onwards
- reviewed the balance sheet management position
- reviewed the financial reporting risk update, which included the effectiveness of the Bank's internal control systems relating to financial reporting and the Bank's financial and accounting policies and practices, as well as the revised accounting standards and prospective changes to accounting standards
- reviewed the significant policies and plans including, but not limited to, the Bank's Recovery Plan
- reviewed the internal audit reports and discussed the same with the Management and Head of Audit
- adopted the Internal Audit Plan and Internal Audit Charter for 2021, and reviewed the resources arrangements, audit statistics, internal audit reports and key themes, and the progress update of the Internal Audit Planning for 2022
- reviewed the update on Sarbanes-Oxley Act (SOX) implementation, internal control system assessment and accounting reconciliations control certificates as of 31 December 2020 and 30 June 2021
- reviewed the adequacies of resources, qualifications and experience of staff of the Accounting and Financial Reporting function and Internal Audit function, and their training programmes and budgets
- reviewed the re-appointment, remuneration and engagement letter of the Bank's external auditor, its independence and objectivity, and the effectiveness of the audit process
- reviewed the report on whistleblowing cases in 2021 and the operation and effectiveness of the whistleblowing arrangements

- reviewed the Audit Committee's independence and effectiveness in discharging its role and responsibilities, and its terms of reference
- approved and reviewed the Audit Committee Certificates of the Bank and its subsidiaries
- endorsed the appointment of Audit Committee Chairman of the Bank
- reviewed the composition of the Audit Committees of the Bank and its subsidiaries
- escalated significant issues to the Audit Committee of The Hongkong and Shanghai Banking Corporation Limited ("HSBC")

The Audit Committee also meets at least twice annually with the representatives of the Bank's Head of Audit and external auditor without the presence of the Management in accordance with its terms of reference.

Risk Committee

The Risk Committee meets at least four times a year with the Bank's executives including the Chief Financial Officer, Chief Risk Officer, Head of Audit, Chief Compliance Officer, and representatives from the Bank's external auditor. The Committee is responsible for, among other things, the Bank's high level risk related matters, risk appetite and tolerance, risks associated with proposed strategic acquisitions or disposals, risk management reports from the Management, effectiveness of the risk management framework and systems of internal control and compliance (other than that regarding financial reporting), and appointment and removal of the Chief Risk Officer.

Pursuant to HKMA's Circular on "Bank Culture Reform", the Board has also delegated to the Risk Committee to encompass culture-related responsibilities. Such responsibilities include actions to approve, review and assess, at least annually, the adequacy of any relevant statement which sets out the Bank's culture and behavioural standards.

The Risk Committee reports to the Board following each Risk Committee meeting, drawing the Board's attention to significant issues or matters of which the Board should be aware, identifying any matters in respect of which it considers that action or improvement is needed, and making relevant recommendations.

During the year, the Risk Committee held four meetings and the major work performed by the Committee was as follows:

- reviewed the Bank's Culture Statement and culture dashboards
- reviewed the first line of defence reports of all lines of businesses
- reviewed the regular risk reports submitted by the Management including, but not limited to, risk management framework, risk governance structure, internal control system assessment, risk appetite statement and framework and profile update, risk profile papers (including risk maps and top and emerging risks), compliance reports, annual plan and progress update relating to compliance
- reviewed 2021 HKMA climate risk stress testing results and 2021 HKMA supervisor driven stress test scenarios and results, and the update on the Bank's climate risk management
- reviewed the enterprise wide risk assessment report, internal capital adequacy assessment process, and endorsed the internal liquidity adequacy assessment process, credit approval authority limits, and other significant risk policies, plans and frameworks
- approved the annual plan of the Risk function for 2021 including risk priorities for 2021
- reviewed the report on the alignment of risk and remuneration, and outcome of incentivising compliance for the pay review of performance year 2020
- reviewed the Internal Audit Plan and the Internal Audit Charter for 2021, and the resources arrangements, audit statistics, internal audit reports and key themes, and the progress update of the Internal Audit Planning for 2022
- reviewed the adequacy of resources, qualifications and experience of staff of the Risk and Compliance function, and their training programmes and budgets
- reviewed the report on whistle-blowing cases in 2021 and the operation and effectiveness of the whistleblowing arrangements
- reviewed the governance of IT and Cloud adoption, the update of cyber security risk and endorsed the cyber resilience assessment framework, including the target cyber resilience maturity and assessment results

- reviewed the operational resilience programme, BCBS 239 self-assessment results, and model risk management
- reviewed the Risk Committee's independence and effectiveness in discharging its role and responsibilities, and its terms of reference
- approved and reviewed the Risk Committee Certificates of the Bank and its subsidiaries
- endorsed the appointment of Risk Committee Chairman of the Bank
- reviewed the composition of the Risk Committees of the Bank and its subsidiaries
- reviewed the information cascaded from and escalated significant issues to the Risk Committee of HSBC

The Risk Committee also meets at least twice annually with the Bank's Chief Risk Officer, Head of Audit, and external auditor separately without the presence of the Management in accordance with its terms of reference.

Remuneration Committee

The Remuneration Committee meets at least twice a year to consider and provide advice to the Board on the remuneration policy and structure in order to underpin the Bank's people strategy. Pursuant to delegation by the Board, the Committee also considers and proposes for the Board's approval the remuneration packages of all EDs, senior management, key personnel and head of control functions. In addition, it reviews at least annually and independently of the Management, the adequacy and effectiveness of the Bank's remuneration policy and its implementation, to ensure that the Bank's remuneration practices are consistent with relevant regulatory requirements and promotes effective risk management.

In determining the bank-wide remuneration policy, the Remuneration Committee will take into account the Bank's business objective, people strategy, short-term and long-term performance, business and economic conditions, market practices, conduct, compliance and risk control, in order to ensure that the remuneration aligns with business and individual performance, promotes effective risk management, facilitates retention of quality personnel

and is competitive in the market. The Committee may invite any Director, executive, consultant or other relevant party to provide advice in this respect, if necessary. In 2021, the Committee engaged an external consultant to undertake an independent review of the Bank's remuneration policy and its implementation for year 2021.

The Remuneration Committee reports to the Board following each Committee meeting, and draws to the Board's attention any significant issues, identify any action or improvement required, and makes relevant recommendations.

During 2021, the Remuneration Committee held two meetings and the major work performed by the Committee was as follows :

- endorsed the remuneration packages of Executive Directors, senior management, key personnel and Heads of Control Functions of the Bank
- endorsed the proposed variable pay for 2020 and pay review proposal for 2021, and the update on 2021 performance and pay review process and changes to performance management
- reviewed and endorsed the fees payable to Non-executive Directors and Committee Chairmen/Members of the Bank and its subsidiaries
- reviewed the report on the alignment of risk and remuneration, and outcome of incentivising compliance for performance year 2020 variable pay
- reviewed and endorsed the revised remuneration policy for the Board's approval
- approved the appointment of independent reviewer for the annual review of the Bank's remuneration policy and its implementation
- reviewed the outcome of the independent review by an external reviewer of the Bank's remuneration policy and remuneration system, and the adequacy and effectiveness of its implementation
- reviewed the Remuneration Committee's effectiveness in discharging its role and responsibilities, and its terms of reference
- approved and reviewed the Remuneration Committee Certificates of the Bank and its subsidiaries

- endorsed the remuneration packages for senior management and recommended to the Board for approval
- reviewed the composition of the Remuneration Committees of the Bank and its subsidiaries
- reviewed the information cascaded from the Remuneration Committee of HSBC and escalated from the Bank's subsidiary, and escalated significant issues from the Remuneration Committee of the Bank to the Remuneration Committee of HSBC

Nomination Committee

The Nomination Committee meets at least twice a year. It leads the process for Board appointments and identifies and nominates candidates for appointment to the Board, for the Board's approval. The Bank has adopted its Nomination Policy to ensure that proper selection and nomination processes are in place for Board appointments. The Nomination Committee shall consider the candidates based on merit having regard to the experience, skills, expertise as well as the overall Board diversity and shall undertake adequate due diligence in respect of the candidates and make recommendations for the Board's consideration and, if thought fit, approval. If necessary, the Bank may also engage external search firm to assist in the sourcing and identification of appropriate candidates for Board appointments. The Nomination Policy is also available on the website of the Bank (www.hangseng.com). The Bank will from time to time review the Nomination Policy and monitor its implementation to ensure its compliance with regulatory requirements and good corporate governance practices.

The Committee also considers, among other things, the structure, size and composition of the Board and Non-executive Board Committees, independence of INEDs, re-election of Directors, term of appointment of NEDs, time commitment required from NEDs, appointment to Board Committees, and approves the appointment to the position of "manager" as defined under the Banking Ordinance.

The Nomination Committee reports to the Board following each Committee meeting, drawing the Board's attention to significant issues or matters of which the Board should be aware, identifying any matters in respect of which it considers that action or improvement is needed, and making relevant recommendations.

During the year, the Nomination Committee held four meetings and the major work performed by the Committee was as follows:

- approved the appointment of Chief Executive and Acting Chief Executive
- endorsed the appointment of NED, INEDs and Board Committee Chairmen and members for the Board's approval
- approved the appointment of Senior Management and senior executives
- approved the appointment of "managers" under the Banking Ordinance
- reviewed the structure, size and composition of the Board and Non-executive Board Committees
- reviewed the succession planning for the Board and senior management
- reviewed the independence of INEDs
- reviewed the time commitment required from NEDs
- endorsed the renewal of terms of appointment of NEDs
- endorsed the re-election of Directors
- reviewed the Nomination Committee's effectiveness in discharging its role and responsibilities, and its terms of reference

Attendance Records

The attendance records of Board and Board Committee meetings held in 2021 are as follows:

	Meetings held in 2021						
	AGM	Board	Executive Committee	Audit Committee	Risk Committee	Remuneration Committee	Nomination Committee
Number of Meetings	1	7	9	4	4	2	4
Directors							
Irene Y L Lee* ^{Note 12} (Chairman)	1/1	7/7	–	4/4	4/4	1/1	4/4
Diana Cesar ^{Note 13} (Executive Director and Chief Executive)	–	4/4	3/3	–	–	–	2/2
Raymond K F Ch'ien* ^{Note 14}	1/1	2/2	–	–	–	1/1	2/2
Louisa Cheang ^{Note 15}	0/1	1/3	3/7	–	–	–	1/2
John C C Chan*	1/1	7/7	–	–	–	2/2	4/4
L Y Chiang*	1/1	7/7	–	4/4	–	2/2	–
Kathleen C H Gan [#]	1/1	7/7	–	–	–	–	–
Margaret W H Kwan ^{Note 16}	1/1	6/7	9/9	–	–	–	–
Clement K M Kwok* ^{Note 17}	–	4/5	–	2/2	–	–	–
Eric K C Li* ^{Note 18}	1/1	2/2	–	2/2	2/2	–	–
David Y C Liao [#] ^{Note 19}	–	4/4	–	–	–	–	2/2
Vincent H S Lo [#]	1/1	7/7	–	–	–	–	–
Kenneth S Y Ng [#] ^{Note 20}	1/1	6/7	–	–	4/4	–	–
Peter T S Wong [#] ^{Note 21}	1/1	2/3	–	–	–	–	1/2
Michael W K Wu*	1/1	6/7	–	–	3/4	–	4/4
Senior Management							
Mrs Eunice Chan ^{Note 22}	–	–	9/9	–	–	–	–
Rose M Cho ^{Note 23}	–	–	9/9	–	–	–	–
Crystal P S Cheung ^{Note 24}	–	–	4/4	–	–	–	–
Liz T L Chow	–	–	9/9	–	–	–	–
Donald Y S Lam	–	–	9/9	–	–	–	–
Gilbert M L Lee	–	–	9/9	–	–	–	–
Andrew W L Leung	–	–	9/9	–	–	–	–
Godwin C C Li	–	–	9/9	–	–	–	–
Ryan Y S Song	–	–	9/9	–	–	–	–
Christopher H K Tsang	–	–	9/9	–	–	–	–
Elaine Y N Wang	–	–	9/9	–	–	–	–
May M K Wong	–	–	9/9	–	–	–	–
Chee Leong Yeo ^{Note 25}	–	–	9/9	–	–	–	–
Average Rate	92%	91%	97%	100%	93%	100%	91%

* INEDs

NEDs

^{Note 12} Irene Y L Lee was appointed as Chairman of the Board and Nomination Committee, and Remuneration Committee member and was re-designated as Risk Committee member, all with effect from 27 May 2021.

^{Note 13} Diana Cesar was appointed as ED and Chief Executive, Executive Committee Chairman and Nomination Committee member, all with effect from 1 September 2021.

^{Note 14} Raymond K F Ch'ien retired and stepped down as the Chairman of the Board, and ceased to be Nomination Committee Chairman and Remuneration Committee member, all with effect from 27 May 2021.

^{Note 15} Louisa Cheang stepped down as ED and ceased to be Vice-Chairman and Chief Executive, Executive Committee Chairman and Nomination Committee member, all with effect from 1 September 2021.

^{Note 16} Margaret W H Kwan retired and stepped down as ED, and ceased to be Executive Committee member, both with effect from 1 February 2022.

^{Note 17} Clement K M Kwok was appointed as INED and Audit Committee Chairman, both with effect from 27 May 2021.

^{Note 18} Eric K C Li retired and stepped down as INED, and ceased to be Audit Committee Chairman and Risk Committee member, all with effect from 27 May 2021.

^{Note 19} David Y C Liao was appointed as NED and Nomination Committee member, both with effect from 1 September 2021.

^{Note 20} Kenneth S Y Ng was appointed as Risk Committee Chairman with effect from 3 November 2021.

^{Note 21} Peter T S Wong retired and stepped down as NED, and ceased to be Nomination Committee member, both with effect from 1 September 2021.

^{Note 22} Mrs Eunice Chan ceased to be Executive Committee member with effect from 1 January 2022.

^{Note 23} Rose M Cho was appointed Executive Committee member with effect from 16 January 2021.

^{Note 24} Crystal P S Cheung ceased to be Executive Committee member with effect from 25 May 2021.

^{Note 25} Chee Leong Yeo ceased to be Executive Committee member with effect from 20 January 2022.

Remuneration of Directors, Senior Management and Key Personnel

The Bank's remuneration policy is to reward competitively the achievement of long-term sustainable performance, and attract and motivate the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience with the Bank. The Bank also recognises the right behaviours that are aligned to Group values and the long-term interests of the stakeholders of the Bank.

Remuneration of Directors

The level of fees paid to NEDs is determined with reference to the Directors' responsibilities and commitment, and fees paid by comparable institutions.

As regards EDs, the following factors are considered when determining their remuneration packages:

- business objectives
- general business and economic conditions
- changes in appropriate markets such as supply/demand fluctuations and changes in competitive conditions
- individual performance and contributions to the Bank
- right behaviours aligned with the Group values, culture and conduct expectation
- retention consideration and individual potential

No individual Director will be involved in decisions relating to his/her own remuneration.

The current scale of Director's fees, and fees for chairmen and members of the Non-executive Board Committees, namely, Audit Committee, Risk Committee, Remuneration Committee and Nomination Committee, are set out below:

	(HK\$)		(HK\$)
Board of Directors ^{Note 26}		Remuneration Committee	
Chairman	860,000	Chairman	290,000
Non-executive Directors	660,000	Members	200,000
Audit Committee/Risk Committee		Nomination Committee	
Chairman	500,000	Chairman	400,000
Members	280,000	Members	200,000

^{Note 26} In line with the remuneration policy of HSBC Group, no Director's fee is payable to those Directors who are full time employees of the Bank and its subsidiaries.

Information relating to the remuneration of Directors on a named basis for the year ended 31 December 2021 is set out in Note 14 to the Bank's 2021 Financial Statements.

Remuneration of Senior Management and Key Personnel

According to HKMA's SPM CG-5 "Guideline on a Sound Remuneration System", authorised institutions are required to make disclosures in relation to their remuneration systems as appropriate. The Bank has fully complied with HKMA's disclosure requirements set out in Part 3 of the said Guideline.

There are 17 Senior Management members ^{Note 27} and eight Key Personnel ^{Note 28} in 2021. The aggregate amount of remuneration ^{Note 29} of the Senior Management and Key Personnel during the year, split into fixed and variable remuneration, is set out below:

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Remuneration amount and quantitative information		2021	2020
Fixed remuneration			
1	Number of employees	25	25
2	Total fixed remuneration (HK\$ '000)	74,861	77,061
3	Of which: cash-based	74,861	77,061
Variable remuneration			
4	Number of employees ^{Note 30}	25	25
5	Total variable remuneration (HK\$ '000) ^{Note 31}	48,806	51,689
6	Of which: cash-based	27,456	31,190
7	Of which: deferred	8,283	8,532
8	Of which: shares or other share-linked instruments	21,350	20,500
9	Of which: deferred	11,252	11,993
10	Total remuneration (HK\$ '000)	123,667	128,750

^{Note 27} Senior Management refers to those executives who are (a) EDs of the Bank; (b) Alternate Chief Executives of the Bank; (c) Members of the Executive Committee of the Bank; and (d) Head(s) of the Bank's principal subsidiary/subsidiaries with offshore operations and with total assets representing more than 5% of the Bank's total assets.

^{Note 28} Key Personnel refers to employees classified as "Identified Staff and Material Risk Takers" (collectively referred as "Material Risk Takers" or "MRTs") under the UK Prudential Regulation Authority Remuneration Rules.

^{Note 29} Remuneration refers to all remuneration payable to employees during the year with reference to their tenure as Senior Management and Key Personnel. The forms of variable remuneration and the proportion deferred are based on the seniority, role and responsibilities of employees and their level of total variable compensation. As the total number of Senior Management and Key Personnel involved is relatively small, to avoid individual figures being deduced from the disclosure, aggregate figures are disclosed in this section.

^{Note 30} Number of employees disclosed above includes leavers who may have zero variable pay.

^{Note 31} No deferred variable remuneration had been reduced through performance adjustments in 2021 and 2020.

The aggregate amount of special payments of the Senior Management and Key Personnel awarded during the year is set out below:

Special payments		2021		2020	
		Number of employees	Total amount (HK\$ '000)	Number of employees	Total amount (HK\$ '000)
1	Guaranteed bonuses	–	–	1	900
2	Severance payments	–	–	1	2,646

The aggregate amount of deferred and retained variable remuneration of Senior Management and Key Personnel is set out below:

Deferred and retained remuneration (HK\$ '000)		2021		2020	
		Cash	Shares	Cash	Shares
1	Total amount of outstanding deferred remuneration ^{Note 32 & 34}	22,449	27,134	25,404	27,811
2	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	22,449	27,134	25,404	27,811
3	Total amount of amendment during the year due to ex post implicit adjustments ^{Note 35}	–	3,389	–	(13,649)
4	Total amount of deferred remuneration paid out in the financial year ^{Note 33 & 34}	2,635	754	6,484	22,116

^{Note 32} Outstanding, unvested, deferred remuneration is exposed to ex post explicit adjustments via malus.

^{Note 33} Paid and vested variable pay made to Material Risk Takers is subject to clawback.

^{Note 34} There is no reduction of deferred remuneration and retained remuneration due to ex post explicit adjustments during 2021 and 2020 via the application of malus and/or clawback.

^{Note 35} Outstanding, unvested, deferred shares are exposed to ex post implicit adjustments. The total value of these shares was calculated based on the closing market share price of HSBC Holding plc (London) as at 31 December of the respective financial years. HSBC's share price was 18.4% higher as at 31 December 2021 when compared to that of 31 December 2020.

Other relevant remuneration disclosures are set out in Notes 14, 15 and 50(b) to the Bank's 2021 Financial Statements.

Accountability and Audit

Financial Reporting

The Board aims at making a balanced, clear and comprehensive assessment of the Bank's performance, position and prospects. An annual operating plan is reviewed and approved by the Board on an annual basis. Reports on financial results, business performance and variances against the approved annual operating plan are made available to the Board for review and monitoring on a monthly basis.

Strategic planning cycles are generally from three to five years. The Bank's strategic plan for 2021 – 2024 was approved by the Board in July 2021. Progress of the implementation of the key initiatives in the strategic plan is reported to and reviewed by the Board and Executive Committee on a quarterly basis.

The annual and interim results of the Bank are announced in a timely manner within two months after the end of the relevant year or period. Further, the Bank also publishes the Banking Disclosure Statement on a quarterly basis pursuant to HKMA's requirements, which provides additional financial information to the public.

The Directors acknowledge their responsibilities for preparing the accounts of the Bank. As at 31 December 2021, the Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Bank's ability to continue as a going concern. Accordingly, the Bank's Directors have prepared the financial statements of the Bank on a going-concern basis.

The responsibilities of the external auditor with respect to financial reporting are set out in the "Independent Auditor's Report" attached to the Bank's 2021 Financial Statements.

Internal Controls

System and Procedures

The Board is responsible for internal control of the Bank and its subsidiaries and for reviewing its effectiveness.

The Bank's internal control system comprises a well-established organisational structure and comprehensive policies and standards. Areas of responsibilities for each business and functional unit are clearly defined to ensure effective checks and balances.

Procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information used within the business or for publication. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud. Procedures have also been designed to ensure compliance with applicable laws, rules and regulations.

Systems and procedures are in place in the Bank to identify, control and report on the major types of risks the Bank encounters. Business and functional units are responsible for the assessment of individual types of risk arising under their areas of responsibilities, the management of the risks in accordance with risk management procedures and the reporting on risk management. The Bank maintains an effective risk management framework through the setting up of specialised management committees for the oversight and monitoring of major risk areas and the establishment of risk management departments under the relevant control functions of the Bank. Relevant risk management reports are submitted to Asset and Liability Management Committee, Risk Management Meeting, Executive Committee, and Risk Committee, and ultimately to the Board for oversight and monitoring of the respective types of risk. The Bank's risk management policies and major control limits are approved by the Board or its delegated committees, and are monitored and reviewed regularly according to established policies and procedures.

More detailed discussion on the policies and procedures for management of each of the major types of risk the Bank encounters is set out in the section "Risk" of the "Management Discussion and Analysis" in this Annual Report.

Annual Assessment

A review of the effectiveness of the Bank's internal control system covering all material controls, including financial, operational, compliance, and risk management controls, is conducted annually. The review at the end of 2021 was conducted with reference to the COSO (The Committee of Sponsoring Organisations of the Treadway Commission) internal control framework, which assesses the Bank's internal control system against the five elements of control environment, risk assessment, control activities, information and communication, and monitoring. The review results have been reported to the Audit Committee, Risk Committee and the Board. The Board is satisfied that such system is effective and adequate. In addition, the Bank, through the Audit Committee, has also reviewed the adequacy of resources, qualifications and experience of staff of the Accounting and Financial Reporting functions, and their training programmes and budget.

Framework for Disclosure of Inside Information

The Bank has put in place 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 so as to allow all the stakeholders to apprehend 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.

Internal Audit

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

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, and its responsibilities to shareholders, customers and staff. The Internal Audit function's role as the third line of defence is independent of the first and second lines of defence. The Bank's Head of Audit reports to the Chairman and the Audit Committee.

An Internal Audit Charter is reviewed and approved by the Audit Committee periodically which has detailed the purpose, organisation, authority, independence and objectivity, accountabilities and scope of work, and standards of audit practices to govern the work of the Internal Audit function. Further, the Internal Audit function also maintains a quality assurance and improvement programme that covers all aspects of internal audit activity, including conformance with The Institute of Internal Auditors (IIA) Standards, applicable regulatory guidance and internal audit policies and procedures.

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. The Internal Audit function 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.

External Auditor

PricewaterhouseCoopers, Certified Public Accountants and a Registered Public Interest Entity Auditor, is the Bank's external auditor. The Audit Committee is responsible for making recommendations to the Board on the appointment, re-appointment, removal and remuneration of the external auditor. The external auditor's independence and objectivity, and the effectiveness of the audit process are also reviewed and monitored by the Audit Committee on a regular basis.

During 2021, fees paid to the Bank's external auditor for audit services amounted to HK\$27.4 million, compared with HK\$26.5 million in 2020. For non-audit services, the fees paid to the Bank's external auditor amounted to HK\$10.0 million, compared with HK\$10.5 million in 2020. In 2021, the non-audit service assignments covered by these fees included HKD\$10.0 million for other assurance services.

Audit Committee

The Audit Committee assists the Board in meeting its responsibilities for ensuring effective systems of internal control and compliance relating to financial reporting, and in meeting its financial reporting obligations, as well as overseeing the implementation and effectiveness of whistleblowing policies and arrangements.

Risk Committee

The Risk Committee assists the Board in meeting its responsibilities for ensuring effective systems of risk management, internal control and compliance (other than that relating to financial reporting), in meeting its risk governance obligations. The Risk Committee also advises and assists in the Board's review of the effectiveness of culture enhancement initiatives.

Communication with Shareholders

Effective Communication

The Bank attaches great importance to communication with shareholders. To this end, a number of means are used to promote greater understanding and dialogue with the investment community. The Bank holds group meetings with analysts in connection with the Bank's annual and interim results. The results announcements are also broadcast live via webcast. Apart from the above, designated senior executives maintain regular dialogue with institutional investors and analysts to keep them abreast of the Bank's development, subject to compliance with the applicable laws and regulations. In addition, the Bank's Chief Executive, Executive Director, and Chief Financial Officer also made presentations and held group meetings with investors at investor forums.

Further, the Bank's website (www.hangseng.com) offers timely access to the Bank's financial information, announcements, circulars to shareholders and information on the Bank's corporate governance structure and practices. For efficient communication with shareholders and in the interest of environmental preservation, shareholders are encouraged to browse the Bank's corporate communications on the Bank's website, in the place of receiving printed copies of the same.

The AGM provides a useful forum for shareholders to exchange views with the Board. The Bank's Chairman, ED(s), Chairmen of the Board Committees and NEDs are available at the AGM to answer questions from shareholders about the business and performance of the Bank. In addition, the Bank's external auditor is also invited to attend the AGM to answer questions about the conduct of the audit, and the preparation and contents of the auditor's report. Separate resolutions are proposed at general meetings for each substantial issue, including the re-election and election (as the case may be) of individual Directors. For AGM held physically, an explanation of the detailed procedures of conducting a poll will be provided to shareholders at the AGM, to ensure that shareholders are familiar with such procedures.

The Bank's last AGM was held on Wednesday, 26 May 2021 ("2021 AGM") at Hang Seng Bank Headquarters. In the interest of safety and wellbeing of the Bank's shareholders, staff and other members of the community amid the prevailing COVID-19 pandemic, the Bank has adopted special arrangements for the 2021 AGM, in order to minimise attendance in person, while still enabling shareholders to vote and ask questions.

The 2021 AGM was held with the minimum number of persons present as is legally required to form a quorate meeting. The quorum was formed by directors and other senior staff members who were shareholders. Shareholders were, however, able to view and listen to the 2021 AGM through a live webcast of the AGM which could be accessed by going to the webcast link provided on any browser enabled device. The Bank also enhanced the shareholders' experience at Q&A session of its 2021 AGM by setting up a dedicated telephone line for shareholders to ask questions directly at the AGM.

All resolutions at the AGM were decided on a poll. Shareholders were still able to vote by doing so in advance of the AGM by appointing the chairman of the AGM as their proxy to exercise their voting right in accordance with their instructions. Shareholders were also enabled to express their views both before the AGM by submitting their questions to a designated email account and during the AGM through the webcast link provided and the dedicated telephone line.

All the resolutions proposed at that meeting were approved by poll. Details of the poll results are available under the section "Investor Relations" of the Bank's website (www.hangseng.com).

New Articles of Association of the Bank was adopted at the 2021 AGM for the purpose of, among other things, providing flexibility to the Bank in relation to the conduct of general meetings. Details of the key changes and other corresponding and house-keeping changes to the Articles of Association are set out in the circular of the Bank dated 21 April 2021.

The next AGM will be held in the second quarter of 2022, the notice of which will be sent to shareholders at least 20 clear business days before the said meeting. Shareholders may refer to the section "Corporate Information and Calendar" in this Annual Report for information on other important dates for shareholders in year 2022.

Calling an Extraordinary General Meeting

Shareholder(s) holding not less than five percent of the total voting rights of all the members having a right to vote may request to call an Extraordinary General Meeting of the Bank.

The requisition (a) must state the general nature of the business to be dealt with at the meeting, (b) must be signed by the requisitionist(s), and (c) may either be deposited at the Bank's registered office at 83 Des Voeux Road Central, Hong Kong in hard copy form or sent by email to egmrequisition@hangseng.com. If the resolution is to be proposed as a special resolution, the requisition should include the text of the resolution and specify the intention to propose the resolution as a special resolution. The requisition may consist of several documents in like form, each signed by one or more requisitionist(s).

The requisition must also state (a) the name(s) of the requisitionist(s), (b) the contact details of the requisitionist(s), and (c) the number of ordinary shares of the Bank held by the requisitionist(s).

The Directors must proceed to convene an Extraordinary General Meeting within 21 days from the date of receipt of the requisition. Such meeting should be held on a date not more than 28 days after the date on which the notice convening the meeting is given.

If the Directors fail to convene the Extraordinary General Meeting as aforesaid, the requisitionist(s), or any of them representing more than one-half of the total voting rights of all of them, may themselves convene the meeting. Any meeting so convened shall not be held after the expiration of three months from the date of the deposit of the requisition.

A meeting so convened by the requisitionist(s) shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Directors.

Any reasonable expenses incurred by the requisitionist(s) by reason of the failure of the Directors to convene a meeting shall be reimbursed to the requisitionist(s) by the Bank.

Putting Forward Proposals at General Meetings

Shareholders representing at least 2.5 percent of the total voting rights of all the members having a right to vote, or, at least 50 shareholders who have a relevant right to vote, may:

- put forward proposal at general meeting
- circulate to other shareholders written statement with respect to matter to be dealt with or other business to be dealt with at general meeting

For further details on shareholder qualifications, and the procedures and timeline, in connection with the above, shareholders are kindly requested to refer to Sections 580 and 615 of the Companies Ordinance (Cap 622, Laws of Hong Kong).

Further, a shareholder may propose a person other than a retiring Director of the Bank for election as a Director of the Bank at a general meeting. For such purpose, the shareholder must send to the Bank's registered address (for the attention of the Bank's Company Secretary) a written notice which identifies the candidate and includes a notice in writing by that candidate of his/her willingness to be so elected. Such notice must be sent within the seven-day period commencing on the day after the despatch of the notice of the meeting, or such other period as may be determined by the Directors from time to time, and ending no later than seven days prior to the date appointed for such meeting. Procedures for shareholders to propose candidates for election as Director of the Bank are also available on the website of the Bank (www.hangseng.com).

Putting Enquiries to the Board

Shareholders may send their enquiries requiring the Board's attention to the Bank's Company Secretary at the Bank's registered address. Questions about the procedures for convening or putting forward proposals at an AGM or Extraordinary General Meeting may also be put to the Company Secretary by the same means.

Shareholders Communication Policy

The Bank has established a Shareholders Communication Policy to set out the Bank's processes to provide shareholders and the investment community with ready, equal and timely information on the Bank for them to make informed assessments of the Bank's strategy, operations and financial performance, and to engage actively with the Bank. The said policy is available on the Bank's website (www.hangseng.com).

Dividend Policy

The Bank has formulated a Dividend Policy to set out the Bank's medium to long term dividend objective to maintain steady dividends in light of profitability, regulatory requirements, growth opportunities and the operating environment. Its roadmap is designed to generate increasing shareholders' value through strategic business growth. The Bank would balance solid yields with the longer-term reward of sustained share price appreciation. When declaring dividends, the Bank will, in general, take into consideration factors including regulatory requirements, financial results, level of distributable reserves, general business conditions and strategies, strategic business plan and capital plan, statutory and regulatory restrictions on dividend payment, and any other factors the Board may deem relevant. More detailed disclosure on the Bank's Dividend Policy is set out in the section "Risk" of the "Management Discussion and Analysis" in this Annual Report.

Material Related Party Transactions

Material Related Party Transactions and Contracts of Significance

The Bank's material related party transactions are set out in Note 50 to the 2021 Financial Statements. These transactions include those that the Bank has entered into with its immediate holding company and its subsidiaries as well as its fellow subsidiary companies in the ordinary course of its interbank activities, including the acceptance and placement of interbank deposits, corresponding banking transactions, off-balance sheet transactions, and the provision of other banking and financial services.

The Bank uses the information technology services of, and shares an automated teller machine network with, The Hongkong and Shanghai Banking Corporation Limited, its immediate holding company. The Bank also shares information technology and certain processing services with fellow subsidiaries. In 2021, the Bank's share of the costs included HK\$1,499 million for system development, HK\$663 million for data processing, and HK\$889 million for administrative services.

The Bank maintains a staff retirement benefit scheme for which a fellow subsidiary company acts as trustee and the Bank's immediate holding company act as administrator. As part of its ordinary course of business with other financial institutions, the Bank also distributes retail investment funds for a fellow subsidiary with a fee income of HK\$32 million and markets Mandatory Provident Fund for its immediate holding company during the year 2021 with a fee income of HK\$151 million.

These transactions were entered into by the Bank in the ordinary and usual course of business on normal commercial terms, and in relation to those which constituted connected transactions under the Listing Rules, they also complied with applicable requirements under the Listing Rules. The Bank regards its usage of the information technology services of The Hongkong and Shanghai Banking Corporation Limited (amount of information technology services cost incurred for 2021: HK\$507 million) as contracts of significance for 2021.

Continuing Connected Transactions

On 21 June 2019, Hang Seng Insurance Company Limited ("HSIC"), a wholly-owned subsidiary of the Bank, renewed or amended and entered into the following agreements:

- (i) A new management services agreement ("New Management Services Agreement") with HSBC Life (International) Limited ("INHK") for a term of three years following the expiry of a previous management services agreement on 21 June 2019.

Pursuant to the New Management Services Agreement, INHK, directly or through one or more of its affiliates, provides certain management services to HSIC. Subsequently, the New Management Services Agreement was amended and restated to effect minor amendments to the scope of services provided by INHK with effect from 1 September 2019. INHK charges HSIC a fee for the provision of the services on a fully absorbed cost basis plus a mark-up of 6%. These charges, which are subject to an annual cap, were determined following negotiation on an arm's length basis and in accordance with the policy of the HSBC Group, which took into account the Organisation for Economic Co-operation and Development transfer pricing guidelines.

- (ii) A new investment management agreement ("New Investment Management Agreement") with HSBC Global Asset Management (Hong Kong) Limited ("AMHK") for a term of three years following the expiry of a previous investment management agreement on 21 June 2019.

Pursuant to the New Investment Management Agreement, AMHK acted as investment manager in respect of certain of HSIC's assets held from time to time. AMHK delegated to HSBC Alternative Investments Limited ("HAIL") the management of part of such assets by way of a bespoke portfolio in accordance with a new specific management mandate ("New Specific Management Mandate") entered into between HSIC, AMHK and HAIL on 21 June 2019. On 23 December 2020, certain minor amendments were made to the New Specific Management Mandate to expand the investment scope of alternative credits and specify that AMHK shall assist HAIL by providing client servicing to HSIC on behalf of HAIL.

HSIC has agreed to pay AMHK, on a quarterly basis, a fee of between 0.05% and 0.5% per annum of the mean value of the assets under management. Under the New Specific Management Mandate, HSIC has also agreed to pay HAIL a fee of between 0.35% and 0.5% per annum before the aforesaid amendments to the New Specific Management Mandate; or a fee of between 0.22% and 0.35% per annum after the aforesaid amendments, both of the aggregate value of assets under management in a bespoke portfolio, together with a performance fee of 10% per annum payable in certain circumstances in respect of the amount by which the return of such portfolio exceeded a benchmark return of 8% (before the aforesaid amendments) or 5% (after the aforesaid amendments) annually. The above fees, which are subject to an annual cap, were determined on an arm's length basis.

- (iii) A new fund monitoring agreement ("New Fund Monitoring Agreement") with HAIL for a term of three years commencing from 22 June 2019 which superseded a previous fund monitoring agreement entered into between HSIC and HAIL on 12 December 2016.

The New Fund Monitoring Agreement sets out the terms upon which HAIL has agreed to provide services to HSIC in connection with the monitoring of the portfolios of certain funds into which HSIC has invested and monitoring their respective fund managers. HSIC has agreed to pay HAIL an annual amount equivalent to 0.04% per annum of the value of funds invested by HSIC in the specified portfolio which are the subject of the monitoring services. The above fee, which is subject to an annual cap, was determined on an arm's length basis.

- (iv) On 21 June 2016, HSIC entered into a private equity investment management agreement ("PE Investment Management Agreement") with HAIL for a term of 11 years, pursuant to which HAIL acts as investment manager in respect of certain private equity fund investments made by HAIL on behalf of HSIC.

Certain minor amendments had been made to the PE Investment Management Agreement on 4 May 2018, 10 May 2018, and on 21 June 2019, the PE Investment Management Agreement was amended and restated to remove the retainer fee and increase the management fee cap.

HSIC has agreed to pay HAIL between 0.35% and 0.75% per annum of the aggregate value of assets under management as an annual management fee on an aggregate basis, and in order to ensure full alignment of interests between the two parties, a performance fee of 15% carried interest if certain hurdle rates of return are achieved for HSIC in respect of the investments made in each year of the investment period under the PE Investment Management Agreement. The above fees, which are subject to certain fee caps, were determined on an arm's length basis.

Pursuant to Rule 14A.52 of the Listing Rules, the term of an agreement for a continuing connected transaction of a listed company must not exceed three years except in special circumstances. As the term of the PE Investment Management Agreement is 11 years, the Bank, in compliance with Rule 14A.52 of the Listing Rules, appointed an independent financial adviser to explain why the PE Investment Management Agreement requires a term that is longer than three years and to confirm that it is normal business practice for investment management agreements relating to private equity investments to be of such duration. The explanation and confirmation by the independent financial adviser were set out in the Bank's announcement on 21 June 2016.

The New Fund Monitoring Agreement, on a standalone basis, is a "de minimis" continuing connected transaction under Chapter 14A of the Listing Rules and is fully exempt from any reporting, announcement, shareholders' approval and annual review requirements under the Listing Rules. However, the Bank considers that due to the similarity of the services provided under the New Fund Monitoring Agreement, the New Investment Management Agreement, the New Specific Management Mandate and the PE Investment Management Agreement, the fees payable by HSIC under these agreements should be aggregated for the purposes of calculating the applicable percentage ratios under the Listing Rules. As one or more of the applicable percentage ratios in respect of the annual caps for the New Investment Management Agreement, the New Specific Management Mandate and the New Fund Monitoring Agreement and the fee caps for the PE Investment Management Agreement, on an aggregated basis, exceed 0.1% but are all less than 5%, these agreements are therefore only subject to the reporting, announcement and annual review requirements under the Listing Rules.

Details of the terms of the New Management Services Agreement, the New Investment Management Agreement, the New Specific Management Mandate, the PE Investment Management Agreement and the New Fund Monitoring Agreement, and the relevant annual caps and fee caps were announced by the Bank on 21 June 2019.

INHK, AMHK and HAIL are all indirect wholly-owned subsidiaries of the HSBC Group, the ultimate controlling shareholder of the Bank, and therefore are connected persons of the Bank. Accordingly, all of the aforesaid agreements constitute continuing connected transactions of the Bank. The Bank has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

For the year ended 31 December 2021, the aggregate amount paid and payable under the New Management Services Agreement was approximately HK\$39 million, whereas the aggregate amount paid and payable under the New Investment Management Agreement and the New Specific Management Mandate was approximately HK\$43 million, both of which were within the annual caps for the year ended 31 December 2021 of HK\$233 million and HK\$120 million respectively. The management fee of approximately US\$3,115,414 (equivalent to HK\$24,278,365) was paid and payable under the PE Investment Management Agreement for the year ended 31 December 2021, which was within the annual cap on management fee of US\$8,000,000 (approximately HK\$62,400,000). No performance fee was

payable under the PE Investment Management Agreement for 2021. Further, for the year ended 31 December 2021, the aggregate amount paid and payable under the New Fund Monitoring Agreement was approximately US\$50,901 (equivalent to HK\$396,662), which was within the annual cap of US\$75,000 (equivalent to HK\$585,000).

In respect of all the aforesaid agreements which constitute the Bank's continuing connected transactions, all the INEDs of the Bank have reviewed the said transactions and confirmed that the said transactions have been entered into:

- (a) in the ordinary and usual course of business of the Bank and its subsidiaries;
- (b) on normal commercial terms or better; and
- (c) in accordance with the relevant agreements governing the same on terms that are fair and reasonable and in the interests of the shareholders of the Bank as a whole.

Further, the Bank engaged its external auditor to report on the continuing connected transactions of the Bank and its subsidiaries in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Directors confirmed that the external auditor has issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions set out in the preceding paragraphs in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Bank to The Stock Exchange of Hong Kong Limited.

Connected Transaction

On 8 July 2021, HSIC, HSBC (Guernsey) GP PCC Limited ("HGGP") and HSBC Management (Guernsey) Limited ("HMGL") entered into a limited partnership agreement ("Limited Partnership Agreement") pursuant to which HSIC, as investor, and HGGP, as general partner, have established a limited partnership vehicle, namely, H8 LP Inc. ("H8 LP"), for the purpose of making private equity investments. Under the Limited Partnership Agreement, HMGL has been appointed as manager to manage the assets of H8 LP in accordance with the Limited Partnership Agreement, and may engage HAIL as exclusive investment advisor to provide HMGL with investment advisory services. HSIC is the sole investor of H8 LP.

HSIC has agreed to commit a total of US\$1,025,000,000 (equivalent to HK\$7,995,000,000) to H8 LP, with such amount to be invested in vintage 2021. HSIC's liability under the Limited Partnership Agreement is limited to the aggregate of its undrawn commitments.

Details of the terms of the Limited Partnership Agreement and the relevant capital contributions were announced by the Bank on 8 July 2021.

HGGP and HMGL, both being indirect wholly-owned subsidiaries of the HSBC Group, the ultimate controlling shareholder of the Bank, are connected persons of the Bank. The Limited Partnership Agreement is therefore a connected transaction of the Bank.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in relation to the new investment mandate is more than 0.1% but less than 5%, the Limited Partnership Agreement is exempt from the independent shareholders' approval requirement, and is subject only to the reporting and announcement requirements in respect of connected transactions set out in Chapter 14A of the Listing Rules.

The Bank has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Culture

Business Principles and Values

The Bank has a set of clear business principles and corporate values to guide the Bank in the decisions it takes and how it operates. "Courageous Integrity" is the guiding principle for staff to speak up and to do the right thing with no compromises to the Bank's ethical standard and integrity. The Bank strives for an inclusive culture that enables employees to fulfil their potentials.

Four values aligned behaviors (We value difference, We succeed together, We take responsibility, and We get it done) underpin effective financial crime risk management culture and good conduct outcomes. The Bank expects all employees to reflect these values by acting with courageous integrity; speaking up; escalating concerns; and doing the right thing for our customers, communities and each other. Leaders and managers are expected to bring to life the corporate values in everyday work. Ongoing management effort is made to embed the corporate values and good conduct through (a) tone from the top; (b) strengthening people management capability to build desired culture; and (c) incentivising and showcasing desired behaviors.

Since 2019 a behavioral led culture change programme "RIGHT Together" was launched to embed culture actions, with five behavioral foci in line with its corporate values and business principles to enable the Bank to "Serving Customers RIGHT and Serving the RIGHT Customers" for sustainable business growth. Particularly we have "Speak up starts with me campaign" in 2021, in which enabling speak-up culture from junior levels across all departments.

Staff Code of Conduct

To ensure the Bank operates to the highest standards of ethical conduct and professional competence, all staff are required to strictly follow the Staff Code of Conduct. With reference to applicable regulatory guidelines and other industry best practices, the Code sets out the ethical standard and values that all staff will adhere to and covers various legal, regulatory and ethical issues. Topics including, but not limited to, conduct in obtaining/granting business and business facilitation, use of information, personal account dealings, conflicts of interest, expectations for personal relationship in the workplace, outside activities, diversity and inclusion, alcohol and drugs, and behaviour expectations at work related (including corporate and social) events are covered in the Code. The Code is reviewed on an annual basis and as when required to reflect the latest regulatory requirements and the Bank's internal policies.

The Bank uses various communication channels to periodically remind staff of the requirement to adhere to the rules and ethical standards set out in the Code. To ensure their understanding on the rules and regulations set out in the Code, an online curriculum for the Code was launched in 2021 and all staff are required to complete it.

Avoidance of Conflicts of Interest

The Bank has established policies and procedures to manage actual or potential conflicts of interest of its staff. Robust organisational structure has been designed to ensure adequate segregation of duties and avoid conflicts of interest. Staff working in sensitive or high-risk areas are required to adhere to job-specific as well as staff dealing rules and undergo training on the avoidance of conflicts of interest in carrying out their duties.

Human Resources

The human resources policies of the Bank are designed to attract high calibre talents at all levels of the Bank, develop and motivate them to excel in their careers, and uphold the Bank's corporate values and culture of service excellence.

Employee Statistics

As at 31 December 2021, the Bank's total headcount was 9,331 representing a decrease of 232*, or -2.4%, compared with a year earlier. The total headcount comprised 3,503 executives (47% are male and 53% are female), 3,906 officers (37% are male and 63% are female) and 1,922 clerical and non-clerical staff (33% are male and 67% are female).

** Talents are the most important asset of the Bank. The emphasis for 2021 was to promote internal job moves and serve internal development opportunities for staff. With continued adoption of technology and process efficiency, productivity of staff has also been enhanced.*

Employee Remuneration

The Bank aims to attract, motivate and retain the best people. The Bank's reward strategy supports this objective through rewarding those who are committed to a long-term career with the Bank with demonstrated sustainable performance, strong alignment to corporate values and adherence to risk and compliance standards.

The Remuneration Committee oversees the Bank's overall remuneration strategy and ensures all the reward policies are carefully considered in the context of business objective, people strategy, commercial competitiveness, alignment of risk and reward and regulatory guidance. The fundamental principles, philosophies and processes are documented in the Bank's remuneration policy.

The Bank adopts a Total Compensation approach. In determining the total remuneration for employees, fixed and discretionary variable pay are considered and differentiated by performance and adherence to corporate values. The Bank will make reference to individual's responsibility, capability and risk profile of the job to ensure appropriate balance between the fixed pay and variable pay.

Fixed pay is determined by taking into account relevant level of the role, skills and experience required by the Business and composition of pay in the markets in which the Bank operates and in support of the Bank's people strategy. Salaries are reviewed in the context of business performance, individual potential and performance, market practice, internal relativities and regulatory requirements.

Bank-wide variable pay budgets are determined based on the Bank's business performance, people strategy, risk appetite statement and risk metrics including conduct risks. The variable pay budget is shaped by risk considerations and the Bank's performance is sustainable in the long-term. The ex-ante risk adjustment of remuneration within the Bank is achieved in the way that the Risk Committee of the Bank will advise the Board and/or the Remuneration Committee, as appropriate, on the alignment of risk appetite with performance objectives set in the context of variable incentive and on whether any adjustments for risk need to be applied when considering performance objectives and actual performance. In addition, the overall variable pay funding proposal is refined with reference to the advice of Chief Financial Officer and Chief Risk Officer in respect of the Bank's financial position and performance against its risk appetite profile.

Variable pay plans takes into account a combination of corporate and/or business results as well as the individual's performance. They reward financial quantitative measures and non-financial qualitative measures including adherence to corporate values, management of risks, service standards, ethical behaviour and responsible selling. To embed a values-led, high performance culture, the variable pay plans are designed to recognise and reward positive behaviours while discourage negative behaviours that put the Bank under unnecessary financial, regulatory or reputational risk with the application of consequence management, malus and clawback policies.

Variable pay consists of deferred and non-deferred components in the forms of cash and share award. The Bank adopts a progressive deferral mechanism with higher deferral rates and different forms of deferral by reference to (a) the employee's seniority, role, responsibilities and the potential risks that their activities may create for the Bank; and (b) the total amount of variable remuneration exceeding the prescribed thresholds. The deferred award has a vesting period of three to seven years and is subject to malus and clawback. In some instances, retention periods of up to one year may be implemented on vested share awards.

The principles of the remuneration policy are applicable to the Bank and its subsidiaries, subject to the local legislative requirements and market practices, and are proportionate to the scope and complexity of the local business.

Employee Engagement

The Bank aims to create a work environment that promotes employee engagement, champions diversity and a culture of inclusivity, and empowers our people to perform at their best by providing training and performance coaching, career development opportunities and support for employee well-being.

Information on the Bank's direction and strategies, policy updates and employment matters is conveyed to employees through business briefings, town hall meetings, intranet posts, morning broadcasts, circulars, e-mails and the Bank's social communication mobile app for staff. Launched in January 2019, the mobile app is an important channel for fostering an open and dynamic culture in which employees feel empowered and inspired to engage in two-way communication with senior management and colleagues at all levels.

The Bank also encourages employees to provide suggestions, comments and feedback through employee surveys, exchange sessions and thematic focus groups. The Bank continuously monitors the sentiments and behaviours of staff with the aim of developing training, communication and staff engagement plans that reinforce a positive corporate culture and values.

The Bank utilises a number of different channels and mechanisms to encourage staff to provide feedback. These include biannual employee surveys, conducted in the first and second halves of the year, that are designed to give the Bank a better understanding of employee opinions on the Bank's progress against its strategy, what they think about the Bank's culture and leadership, and how they think the Bank could improve the working and workplace experience. In the second half of 2021, the highest scoring indices were 'Change Leadership' and 'Trust', which both recorded an employee approval rating of over 80%, and were 5 points and 11 points respectively above the industry averages for the same period.

Growth and Development

The Bank is committed to the development of competence and ethical behaviour of staff members with due regard to the principles set out in HKMA's SPM CG-6 on "Competence and Ethical Behaviour". The Bank has established policies and procedures for monitoring, developing and maintaining the competence level and ethical behaviour of staff members. These include clear guidance as set out in various policy manuals, robust performance management system, training and development solutions provided on a regular and need basis.

The Bank offers a full spectrum of learning resources on wide-ranging banking, technical and management subjects, e-Learning, Classroom Training (both virtual and physical), mobile learning, and VR training etc, to support staff learning and development. To start with, all new joiners are provided with a comprehensive induction programme of the Bank's history, vision, culture, values, risk management and corporate governance. The Bank also offers a series of anti-money laundering, conduct, anti-bribery and corruption training programmes to strengthen the financial crime risk management culture. A wider range of on-the-job role based specific training programmes are also available for each critical role, in the areas of relationship management, sales, products, operations, compliance, credit and risk, etc. On average, the Bank's staff members in Hong Kong undertook 3.8 days of learning and development programme in 2021. In addition, the Bank offers education subsidy to support staff to pursue professional or academic qualifications and/or acquire job-related knowledge.

The Bank invests in the development of its leadership pipeline and supports the personal growth of staff by providing a broad range of leadership and management development solutions. To ensure sustainability, the Bank has strategies, measures and analytics to plan and manage succession to leadership roles, and to prepare high-potential talents for their succession to critical roles. Businesses/functions supported by the Human Resources take actions to accelerate the development of successors and high potential talents through feedback and coaching, planned job moves for development including cross fertilisation between businesses/functions, and implementing individual development plans.

Recruitment and Retention

The Bank pursues external recruitment of fresh graduates, experienced professionals and functional specialists to support execution of business strategy. New hires are offered well-structured on-boarding and development programmes. At the same time, the Bank promotes opportunities for internal mobility and career development for internal staff. The Bank sponsors co-ops and internships to build pipeline for future hires. Trainee programmes in select business areas are in place to develop professional competence and to build future talents for key roles. People managers focus on staff engagement and retention through their roles in everyday performance management and development coaching of their staff, offer of career advancement opportunities and market competitive remuneration.

The Bank sponsors intake through the FinTech Internship programme co-launched by HKMA and the Applied Science and Technology Research Institute in previous years. In 2021, the Bank has participated in the HKMA Banking Talent Programme to offer 6-month internships to fresh graduates, and offer 18-month employment contracts to graduates under the HKSAR Government's "Greater Bay Area Youth Employment Scheme". The Bank has also participated in the "HKMA Financial Industry Recruitment Scheme for Tomorrow" programme to offer 12-month employment contracts to experienced hires.

Environmental, Social and Governance

The pandemic and ongoing effects of climate change have driven home the significance of the role that every person and every organisation has to play in ensuring a sustainable future for all. The Bank has taken a proactive approach to managing Environmental, Social and Governance (ESG) issues to keep pace with the fast-changing landscape, both in our own operations and in how we support our customers and community to transition to a low-carbon future.

In 2021, we further strengthened our ESG governance, especially in climate risk management, to better respond to the expectations of regulators and investors. The Executive Committee and ESG Steering Committee continued to provide guidance and oversight on the coordinated efforts of all departments to meet the Bank's aspirations. The Board of Directors was regularly updated on ESG matters and attended six dedicated training sessions related to ESG during the course of the year.

Under the ESG governance structure, our senior management provided regular insights to support the fulfilment of our ESG vision and establish an implementation plan. In early 2021, the Board approved our ESG strategy and implementation plan for 2021 and beyond.

Aspiring to be a leader in driving ESG in the banking industry, we launched six key ESG pillars, as listed below, to put our vision into action.

- Environmental targets
- Sustainable finance
- Youth
- Climate risk management
- Advocacy and awareness
- Robust disclosure

Through concerted actions across the Bank, we have made good progress in 2021. All staff members received training on the importance of sustainability. Update of climate risk is reported under Top and Emerging risk for close monitoring currently. A dedicated green financing team was established and we title-sponsored the Chamber of Hong Kong Listed Companies' first 'ESG and Green Finance Opportunities Forum' to engage companies and financial sector stakeholders on ESG. The Bank also launched eight bite-size ESG learning videos online to enhance staff and public understanding of ESG matters and raise awareness on how everyone can play a part in supporting sustainability at work and in daily life.

The Bank's committed efforts in its disclosures were recognised with the Grand Awards in the 'Best ESG Report' and 'Best GRI Report' in the Hong Kong ESG Reporting Awards in 2021.

For more details of Hang Seng's ESG vision, initiatives and performance, please refer to the Bank's 2021 Environmental, Social and Governance Report to be made available on the Bank's website by the end of May 2022.

Environment

Supporting the Hong Kong SAR Government's Climate Action Plan 2050, the Bank put a holistic Climate Strategy in place in 2021 to drive our own corporate development. The Strategy not only includes actions to prepare for climate change, which is vital for our long-term success, but also reinforces our business commitment in reducing emissions from our own operations. Furthermore, we set environmental targets that would make us carbon neutral in our own operations by 2030 to align with Hong Kong's goal for carbon neutrality before 2050 and to adapt to the physical and transition risks and opportunities associated with a warming world. We aim to leverage our position in the value chain to instigate change and encourage climate actions by our clients and partners.

As the first local bank in Hong Kong to sign up as a supporter of the Task Force on Climate-related Financial Disclosures and attain ISO 14001 certification for all its offices and branches, we strive to lead by example in transitioning to a low-carbon economy. Under the ESG Steering Committee, the Environmental Working Group is chaired by our Chief Operating Officer to oversee the strategy and implementation of environmental matters within our operations. With a clear Environmental Policy, the Bank is committed to conducting its activities in an environmentally responsible manner and developing a range of management practices to promote sustainable development.

With our key ESG ambition to be carbon neutral in our operations by 2030, we have undertaken a series of about HK\$54 million Bank-wide enhancement projects that aims to reduce our carbon dioxide emissions by over 380 metric tonnes per year through initiatives to make our workplaces more energy-efficient and sustainable, referencing internationally recognised standards.

In 2021, we took further steps to support renewable energy. In addition to purchasing 2,920MWh of renewable energy from local electricity providers, we installed solar panels at our Mong Kok office building with the capacity to generate over 60MWh of renewable energy per year. In recognition

of the Bank's support for the development of renewable energy in Hong Kong, we received the 'Renewable Energy Contribution Award' in CLP's Smart Energy Award 2021.

The Bank's operations comply with all applicable environmental regulations and guidelines in Hong Kong, such as the Waste Disposal Ordinance (Cap. 354). In 2021, we had no reported cases of non-compliance with environmental laws or regulations.

Together with our key goal of becoming carbon neutral by 2030, we have also set the following environmental targets.

Environmental targets

Aspects	2030 Targets	2021 Progress (As of the end of September 2021)
Electricity Consumption	Reduce absolute electricity consumption by 30% using October 2017 to September 2018 as base year	-9.8%
Greenhouse Gas Emissions	Reduce absolute Scope 1 and 2 emissions by 30%* using October 2017 to September 2018 as base year	-22.5%
Water Consumption	Reduce absolute water consumption by 24% using October 2017 to September 2018 as base year	-7.5%
Waste Diversion	Divert 80% of waste away from landfill	57.3%
Paper Consumption	Reduce absolute paper consumption by 35% using October 2018 to September 2019 as base year	- 30.8%

* This target excludes the carbon emissions reduction through sourcing electricity from renewable energy schemes organised by local electricity providers.

Sustainable finance

Alongside enhancing our operational ESG performance, we further stepped up our efforts to provide a wider range of ESG-themed products and services. In 2021, the Bank's approved green loan value totalled about HK\$7.3 billion, 14.7 times the level in 2020. We have also further diversified our ESG investment products for retail customers, which has helped bring the total sales volume of such products to HK\$1.7 billion in 2021, up over 1,800% compared with 2020.

Aspect	Products
Green financing	<ul style="list-style-type: none"> – Green Financing Promotion Scheme (since 2018) – Greenness Assessment Scheme (since 2020) – Sustainability-linked loan (since 2021)
ESG investment	<ul style="list-style-type: none"> – Hang Seng Corporate Sustainability Index Fund (since 2011) <p>The Bank also offers other types of ESG-themed products, such as sustainable equity funds, low-carbon bonds and structured products.</p>
ESG-themed research and indexing	<ul style="list-style-type: none"> – Hang Seng Corporate Sustainability Index (since 2010) – Hang Seng ESG 50 Index (since 2020) – HSI ESG Index (since 2019) – HSCEI ESG Index (since 2019) – Hang Seng Shanghai-Shenzhen-Hong Kong Autonomous and Electric Vehicles Index (since 2021) – Hang Seng Shanghai-Shenzhen-Hong Kong Clean Energy Index (since 2021) – HSI ESG Enhanced Index (since 2021) – HSI Low Carbon Index (since 2021) <p>Our wholly owned subsidiary, Hang Seng Indexes Company Limited, continues to publish the information of researched companies' ESG ratings on its public website to for the benefit of parties who are seeking independent information about the ESG performance of those companies.</p>

Focus Areas	2021	2020	2019
Number of green loan applications	23	2	2
Total green Loan amount	HK\$7,291 million	HK\$495 million	HK\$1,008 million
Number of researched companies by our appointed ESG assessment body	1,927	1,799	1,680

Going forward, Hang Seng will continue to increase the diversity and number of its green products.

Community Investment Strategy

We are a long-time advocate of creating sustainable and positive impact in our community. The Bank's community investment strategy is formulated around four pillars: 'Future Skills', 'Promoting Sustainable Finance and Financial Literacy', 'Addressing Climate Change' and 'Care for the Community'. Together, these pillars reflect the Bank's approach in supporting the needs of the community.

The Corporate Social Responsibility Working Group, chaired by the Bank's Head of Communications and Corporate Sustainability, is responsible for overseeing the development and implementation of our community investment strategy. The Working Group reports progress on the Bank's various community investment initiatives to the ESG Steering Committee on a quarterly basis.

The 'Addressing Climate Change' pillar became a key focus in 2020 as we move to better respond to this pressing global issue and to align with the Bank's environmental management approach. In 2021, we launched the innovative 'Hang Seng Low Carbon Future: SolarCare Programme' to support renewable energy development by installing solar panels at an NGO campsite. Leveraging the Government's Feed-in Tariff rebate scheme, the solar panels will generate funds to support high quality climate education activities for local youths for up to 10 years. The SolarCare Programme is unique in using direct actions to reduce carbon emissions while generating sustainable funding for community projects at the same time.

With the aim of bringing together corporates, regulators and sustainability professionals to discuss ESG best practices and the potential of green finance, we initiated and title-sponsored the Chamber of Hong Kong Listed Companies' first 'ESG and Green Finance Opportunities Forum' in 2021.

Financial management is a valuable skill at any age. It is important to help students and adults at different stages of life to build a strong foundation of basic financial knowledge. In 2021, we launched a new financial education programme for junior secondary school students in Hong Kong. We aim to expand the reach of our financial education series to cover a full spectrum of beneficiaries – from kindergarten, primary, secondary and university students to adults and senior citizens.

We were delighted to witness the achievements of Hang Seng Table Tennis Academy (HSTTA) graduates at the Tokyo Olympics and the Doha ITTF-ATTU Asian Championships in 2021. The outstanding success of HSTTA alumni at an international level is a testament to the Bank's 30-year support of the development of table tennis in Hong Kong.

Overall in 2021, we invested more than HK\$31 million in our community investment programmes, working with local organisations to design and deliver 18 community investment programmes to support about 40,000 direct beneficiaries.

We also invested non-financial resources such as volunteer time, professional expertise and practical support to further enhance the lasting social and environmental impact of these programmes. During 2021, we contributed close to 10,300 hours of volunteer time and professional expertise to various charitable initiatives.

Over the past 10 years, we have invested a total of about HK\$289 million in community initiatives.

Details of the positive effects of Hang Seng's community investment initiatives are available in the ESG Report on our website.

Health and Safety

The Bank commits to ensure a best in class health and safety business environment. To achieve this, the Bank migrated its management system to ISO 45001:2018 Occupational Health and Safety Management System ("OHSMS") in 2020, certified by independent external certification body, with an aim to minimise the exposure of health and safety associated risk to all stakeholders including staff, customers and contractors with its business activities within the Bank's premises.

The Bank's proactive strategies are aimed at enhancing the health and safety, wellbeing of the Bank all stakeholders to achieve desired outcomes. The Bank commits to:

- providing and maintaining a safety-first workplace culture where the Bank takes care of each other and provides a best in class "activity based" work environment where safety is prioritised;
- reviewing the effectiveness of health and safety management system continuously by appointed certification body at planned interval;
- taking all reasonably practicable measures to eliminate or minimise risks to the physical and mental health, safety and wellbeing of the Bank staff and others via comprehensive risk assessment;
- providing sufficient information, instruction, supervision and training for every work process;
- fostering a collaborative and cooperative relationship with the Bank staff and other stakeholders through effective consultation regarding health, safety and wellbeing activities at work;
- encouraging effective early intervention practices to better identify risk and minimise the impact on the physical and mental health of the Bank staff;
- taking care of vulnerable employee via sound controls in place;
- marketing best practice in the industry for continuous improvement;
- supporting the rehabilitation of the Bank staff following an injury or illness, enabling a safe and productive return to work; and
- promoting a nationally consistent approach to rehabilitation and improving awareness of rehabilitation initiatives to ensure timely and effective outcomes monitoring and evaluating work health and safety performance as part of a continual improvement process to assess the effectiveness of the Bank's work health and safety management system.

Each of the Bank staff contributes to building and maintaining a physical and mentally healthy work environment by caring for one another and always putting safety first. Each of the Bank staff also plays an important role in engaging in meaningful, respectful and open consultation about health and safety matters to achieve the Bank's strategic outcomes. The Bank acknowledges its staff shared duties under the Bank's Health & Safety Policies, which are committed to consulting, cooperating and coordinating health and safety activities to achieve positive safety outcomes for the Bank staff.

It is also fundamental that all employees recognise and accept that they have a responsibility to work safely, to maintain a safe workplace and never walk by unsafe acts and conditions. The Bank staff are also required to exercise general duties as Employee as well as to observe all health and safety policies, guidance and practices established by the Bank. The Bank believes that all accidents and illnesses can and should be prevented through continuous commitment, communication and acts of safety of the Bank staff, in addition to living up the strong safety culture within the Bank.

The Bank develops and continuously review work arrangement guiding principles and procedures for COVID-19, which sets out the actions to be taken by various units in response to the occurrence of different scenarios. In addition, the Bank keeps an adequate stock of hygiene consumables, such as cleaning products, face masks etc, to protect its staff at all times. The Bank staff are also well

trained to raise the overall safety risk awareness through the Bank-wide intranet of the importance of personal hygiene and health, and the contingency measures, in order to enable the Bank services to the community during an outbreak of a COVID-19.

In 2021, the Bank continued implementing a Health & Wellbeing Program, which included a series of wellbeing activities and a mental health month. The Program also consisted of a series of workshops to help the Bank staff better understand the importance of work life balance, encourage them to adopt and maintain a health and balanced lifestyle, and to stay positive to maintaining a well-managed stress level.

For more details of the Bank's ESG vision, initiatives and performance in 2021, please refer to its 2021 Environmental, Social and Governance Report to be made available on the Bank's website (www.hangseng.com).

Other Information

Organisational Structure

Under the Bank's current organisational structure, the Bank's businesses and functions are set out as follows:

Businesses	Functions	
Wealth and Personal Banking	Audit	Financial Control
Commercial Banking	Communications	Human Resources
Global Banking	Compliance	Legal
Global Markets	Corporate Governance & Secretariat	Marketing
	Corporate Sustainability	Risk
		Digital Business Services
		Strategic Planning and Corporate Development