

# REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2023.

## Principal Place of Business

The Bank is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 83 Des Voeux Road Central, Hong Kong.

## Principal Activities

The Bank and its subsidiaries (the 'Hang Seng Group') are engaged in the provision of banking and related financial services.

## Business Review

Discussions on the Hang Seng Group's businesses and performance as required by Schedule 5 to the Hong Kong Companies Ordinance can be found throughout this Annual Report, particularly in the following separate sections, which form part of this report:

- (a) Fair review of the Hang Seng Group's businesses and a discussion and an analysis of the Hang Seng Group's performance during the financial year 2023 – 'Five-Year Financial Summary', 'Chairman's Statement', 'Chief Executive's Report', 'Management Discussion and Analysis'
- (b) Discussion of the principal risks and uncertainties facing the Hang Seng Group – 'Management Discussion and Analysis'
- (c) Particulars of important events affecting the Hang Seng Group that have occurred since the end of the financial year 2023 – 'Management Discussion and Analysis'
- (d) Indication of likely future development in the Hang Seng Group's business – 'Chief Executive's Report', 'Management Discussion and Analysis'

- (e) Discussion of the Hang Seng Group's environmental policies and performance, and its compliance with the relevant laws and regulations that have a significant impact on the Hang Seng Group – 'Management Discussion and Analysis', 'Corporate Governance Report'
- (f) Account of the Hang Seng Group's key relationships with its employees, customers and suppliers that have a significant impact on the Hang Seng Group – 'Corporate Governance Report'

## Profits and Dividends

The consolidated profit of the Bank and its subsidiaries and associates for the year is set out under the consolidated income statement of this Annual Report.

The Directors declared and paid the first to third interim dividends of HK\$3.30 (2022: HK\$2.10) per share totalling HK\$6,309m (2022: HK\$4,014m) during the year. The Directors also declared the fourth interim dividend of HK\$3.20 per share totalling HK\$6,118m (2022: HK\$2.00 per share totalling HK\$3,824m), which will be paid on 21 March 2024.

## Major Customers

The Directors believe that the five largest customers of the Bank accounted for less than 30% of the total interest income and other operating income of the Bank for the year.

## Subsidiaries

Particulars of the Bank's principal subsidiaries as at 31 December 2023 are set out in note 29 to the financial statements for the year ended 31 December 2023.

## Share Capital

Details of share capital of the Bank during the year are set out in note 41 to the financial statements for the year ended 31 December 2023.

## Equity-linked Agreements

For the year ended 31 December 2023, the Bank has not entered into any equity-linked agreement.

## Purchase, Sale or Redemption of the Bank's Listed Securities

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during the year.

## Reserves

Distributable reserve of the Bank as at 31 December 2023, calculated under Part 6 of the Hong Kong Companies Ordinance, amounted to HK\$108,316m (2022: HK\$101,000m). Movements in other reserves are set out in the consolidated statement of changes in equity of this Annual Report.

## Donations

Charitable donations made by the Bank and its subsidiaries during the year amounted to HK\$28m. For further details of the Bank's corporate social responsibility activities and expenditures, please refer to the section 'Environmental, Social and Governance' in the 'Corporate Governance Report' of this Annual Report.

## Directors

The Directors of the Bank, who were in office on the date of this report, were Irene Y L Lee, Diana Cesar, Cordelia Chung, Kathleen C H Gan, Clement K M Kwok, Patricia S W Lam, David Y C Liao, Huey Ru Lin, Kenneth S Y Ng, Say Pin Saw and Xiao Bin Wang.

Michael W K Wu retired from the Board with effect from the conclusion of the Bank's 2023 Annual General Meeting held on 4 May 2023.

All the Directors, who were in office on the date of this report, had served on the Board of the Bank throughout the year.

As announced by the Bank on 1 February 2024, Kenneth S Y Ng will step down as an Independent Non-executive Director of the Bank and will cease to be the Chairman of the Risk Committee and a member of the Nomination Committee, all with effect from the conclusion of the Bank's 2024 Annual General Meeting ('2024 AGM') to be held in May 2024, in order to devote more time to his other commitments and areas of interest. The Board has resolved to appoint Xiao Bin Wang, currently an Independent Non-executive Director of the Bank, to succeed Mr Ng as the Chairman of the Risk Committee with effect from the conclusion of the 2024 AGM.

The Director who is required to retire by rotation pursuant to the Bank's Articles of Association at the 2024 AGM is Irene Y L Lee.

No Director proposed for re-election at the 2024 AGM has a service contract with the Bank which is not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

The biographical details of the Directors of the Bank are set out in the section 'Biographical Details of Directors and Senior Management' of this Annual Report.

## Directors of Subsidiaries

The names of all Directors who have served on the boards of the Bank's subsidiaries during the period from 1 January 2023 to the date of this report (unless otherwise stated) are provided in the section 'Directors of Subsidiaries' in the 'Corporate Information' of this Annual Report.

## Status of Independent Non-executive Directors

The Bank has received from each Independent Non-executive Director an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the 'Listing Rules' and the 'Stock Exchange' respectively). The Bank considers all the Independent Non-executive Directors to be independent.

## Directors' and Alternate Chief Executives' Interests

As at 31 December 2023, the interests of the Directors and Alternate Chief Executives in the shares, underlying shares of equity derivatives and debentures of the Bank and its associated corporations (all within the meaning of Part XV of the Securities and Futures Ordinance ('SFO')) disclosed in accordance with the Listing Rules were detailed below.

### Interests in shares

	Personal Interests (held as beneficial owner)	Family Interests (interests of spouse or child under 18)	Corporate Interests (interests of controlled corporation)	Other Interests	Total Interests	Total Interests as % of the relevant shares in issue/issued share capital
<b>Number of ordinary shares in the Bank</b>						
<b>Director:</b>						
Kathleen C H Gan	2,500	–	–	–	2,500	0.00
<b>Number of ordinary shares of US\$0.50 each in HSBC Holdings plc</b>						
<b>Directors:</b>						
Diana Cesar	450,839	–	–	113,680 <sup>(1)</sup>	564,519	0.00
Kathleen C H Gan	339,313	–	–	141,470 <sup>(1)</sup>	480,783	0.00
Patricia S W Lam	367,270	–	–	–	367,270	0.00
Irene Y L Lee	15,000	–	–	–	15,000	0.00
David Y C Liao	662,248	–	–	466,693 <sup>(1)</sup>	1,128,941	0.00
Kenneth S Y Ng	440,723	–	–	–	440,723	0.00
Say Pin Saw	34,433	–	–	35,916 <sup>(1)</sup>	70,349	0.00
<b>Alternate Chief Executives:</b>						
Kathy K W Cheung	88,741	–	–	18,621 <sup>(1)</sup>	107,362	0.00
Vivien W M Chiu	30,862 <sup>(2)</sup>	79,570 <sup>(3)</sup>	–	5,506 <sup>(1)</sup>	115,938	0.00
Rannie W L Lee	21,572	–	–	15,493 <sup>(1)</sup>	37,065	0.00

### Interests in debentures of associated corporation of the Bank

	Personal Interests (held as beneficial owner)	Family Interests (interests of spouse or child under 18)	Corporate Interests (interests of controlled corporation)	Other Interests	Total Interests
<b>Perpetual subordinated contingent convertible securities issued by HSBC Holdings plc</b>					
<b>Alternate Chief Executive:</b>					
Vivien W M Chiu	–	US\$300,000 <sup>(3)</sup>	–	–	US\$300,000

Notes:

<sup>(1)</sup> These included interests in conditional awards of ordinary shares of US\$0.50 each in HSBC Holdings plc under the HSBC Share Plans made in favour of Directors and Alternate Chief Executives.

<sup>(2)</sup> These included 1,933 shares in HSBC Holdings plc jointly held by Vivien W M Chiu and her family member.

<sup>(3)</sup> Vivien W M Chiu's spouse had interests in the total amount of US\$300,000 of perpetual subordinated contingent convertible securities issued by HSBC Holdings plc. These perpetual subordinated contingent convertible securities would be converted into 79,570 ordinary shares in HSBC Holdings plc upon the occurrence of capital adequacy trigger event. Ms Chiu's family interests set out in the table under 'Interests in shares' and the table under 'Interests in debentures of associated corporation of the Bank' represented the same interests.

### Conditional Awards of Shares

During the year, the Directors and Alternate Chief Executives as set out below were eligible to be granted conditional awards over ordinary shares of US\$0.50 each in HSBC Holdings plc by that company (being the ultimate holding company of the Bank) under various HSBC Share Plans. The details of the interests of the Directors and Alternate Chief Executives in the conditional awards of ordinary shares in HSBC Holdings plc under the HSBC Share Plans, as at 31 December 2023, were as follows:

	Awards held as at 1 January 2023	Awards made during the Director's/Alternate Chief Executive's term of office in 2023	Awards released during the Director's/Alternate Chief Executive's term of office in 2023	Awards held as at 31 December 2023 <sup>(1)</sup>
<b>Directors:</b>				
Diana Cesar	111,835	80,768	78,923	113,680
Kathleen C H Gan	122,320	93,054	73,904	141,470
David Y C Liao	343,819	259,961	137,087	466,693
Say Pin Saw	26,921	18,424	9,915	35,916
<b>Alternate Chief Executives:</b>				
Kathy K W Cheung	17,211	21,069	19,659	18,621
Vivien W M Chiu	5,346	2,671	2,625	5,506
Rannie W L Lee	8,696	22,176	15,379	15,493

Notes:

<sup>(1)</sup> This included additional shares arising from scrip dividends, if any.

During the year, Kathy K W Cheung, Vivien W M Chiu, Kathleen C H Gan and Say Pin Saw also acquired and were awarded ordinary shares of HSBC Holdings plc under the HSBC International Employee Share Purchase Plan. Their interests in ordinary shares of HSBC Holdings plc under this plan have been included in their 'Personal Interests' disclosed in the table under 'Interests in shares'.

All the interests stated above represented long positions. As at 31 December 2023, no short positions were recorded in the Register of Directors' and Alternate Chief Executives' Interests and Short Positions required to be kept under section 352 of the SFO.

Save as disclosed in the preceding paragraphs, neither the Bank nor any of its holding companies or its subsidiaries or fellow subsidiaries was a party to any arrangement to enable the Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate as at the end of the year or at any time during the year.

No right to subscribe for equity or debt securities of the Bank has been granted by the Bank to, nor have any such rights been exercised by, any person during the year ended 31 December 2023.

## Directors' Interests in Transactions, Arrangements or Contracts

No transaction, arrangement or contract (that is significant in relation to the Bank's business), to which the Bank or any of its holding companies or any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Bank or an entity connected with a Director had, directly or indirectly, a material interest, subsisted as at the end of the year or at any time during the year.

## Management Contracts

Save for service contracts, no other contracts, relating to the management and/or administration of the whole or any substantial part of the business of the Bank were entered into or subsisting during the year.

## Directors' Interests in Competing Businesses

Pursuant to Rule 8.10 of the Listing Rules, as at the date of this report, the following Directors had declared interests in the following entities which compete or are likely to compete, either directly or indirectly, with the businesses of the Bank:

Diana Cesar is a General Manager of HSBC Holdings plc.

Kathleen C H Gan is a General Manager and Head of Finance, Global Businesses, DBS and Functions of HSBC Holdings plc. She was also a Non-executive Director of both HSBC Life (Singapore) Pte. Ltd. (formerly known as AXA Insurance Pte. Ltd.) and HSBC INSN (Non Operating) Pte. Ltd. (formerly known as HSBC Insurance (Singapore) Pte. Limited) until 31 May 2023 and 21 May 2023 respectively, both of which are indirect wholly-owned subsidiaries of The Hongkong and Shanghai Banking Corporation Limited.

David Y C Liao is a Group Executive and a Member of the Group Executive Committee of HSBC Holdings plc. He is also an Executive Director and Co-CEO of The Hongkong and Shanghai Banking Corporation Limited. In addition, he is a Non-executive Director of Bank of Communications Co., Ltd., which conducts general banking business.

Kenneth S Y Ng is an Independent Non-executive Director of HSBC Bank Australia Limited and the Chairman of the Board of Supervision of HSBC Bank (Vietnam) Ltd., both of which are wholly-owned subsidiaries, directly or indirectly, of The Hongkong and Shanghai Banking Corporation Limited.

Say Pin Saw is a Director of HSBC Asia Holdings Limited, the immediate holding company of The Hongkong and Shanghai Banking Corporation Limited.

HSBC Holdings plc, through its subsidiaries and associated undertakings, including The Hongkong and Shanghai Banking Corporation Limited, the immediate holding company of the Bank, is engaged in providing a comprehensive range of banking, insurance and related financial services.

The entities in which the Directors have declared interests are managed by separate boards of directors and management, which are accountable to their respective shareholders.

The Board of the Bank includes seven Independent Non-executive Directors whose views carry significant weight in the Board's decisions. The Audit Committee (comprising of three Independent Non-executive Directors) and Risk Committee (comprising of four Independent Non-executive Directors) of the Bank meet regularly to assist the Board of Directors in reviewing the financial performance, internal control and risk management systems of the Bank and its subsidiaries. The Bank is, therefore, capable of carrying on its businesses in the best interests of all shareholders as a whole and has put in place adequate mechanisms to ensure that the Directors discharge their duties vis-a-vis all shareholders, including in respect of the Bank's dealings with the businesses in which Directors have declared interests.

## Directors' Emoluments

The emoluments of the Directors of the Bank on a named basis are set out in note 14 to the financial statements for the year ended 31 December 2023.

## Indemnity Provision

Details of the Bank's permitted indemnity provision are set out in the section 'Corporate Governance Report' of this Annual Report.

## Substantial Interests in Share Capital

The register maintained by the Bank pursuant to the SFO recorded that, as at 31 December 2023, the following corporations had interests or short positions in the shares or underlying shares (as defined in the SFO) in the Bank set opposite their respective names:

Name of Corporations	Number of Ordinary Shares in the Bank (Percentage of total)
The Hongkong and Shanghai Banking Corporation Limited	1,188,057,371 (62.14%)
HSBC Asia Holdings Limited	1,188,057,371 (62.14%)
HSBC Holdings plc	1,188,057,371 (62.14%)

The Hongkong and Shanghai Banking Corporation Limited is a wholly-owned subsidiary of HSBC Asia Holdings Limited, which in turn is a wholly-owned subsidiary of HSBC Holdings plc. Accordingly, the interests of The Hongkong and Shanghai Banking Corporation Limited are recorded as the interests of HSBC Asia Holdings Limited and HSBC Holdings plc.

The Directors regard HSBC Holdings plc to be the beneficial owner of 1,188,057,371 ordinary shares in the Bank (62.14%).

All the interests stated above represented long positions. As at 31 December 2023, no short positions were recorded in the Register of Interests in Shares and Short Positions required to be kept under section 336 of the SFO.

## Public Float

As at the date of this report, the Bank has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Bank and within the knowledge of the Directors of the Bank.

## Corporate Governance Principles and Practices

Details of the Bank's corporate governance practices are set out in the section 'Corporate Governance Report' in this Annual Report.

## Auditor

The financial statements for the year ended 31 December 2023 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Bank will be proposed at the 2024 AGM.

On behalf of the Board

**Irene Lee**

Chairman

Hong Kong, 21 February 2024