

## Corporate Governance and Other Information

### Corporate Governance

The Bank is committed to high standards of corporate governance and has followed the module on “Corporate Governance of Locally Incorporated Authorised Institutions” under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority in September 2001. It has also complied throughout the year with the Code of Best Practice adopted by the Bank, which includes all the guidelines set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”).

### Board of Directors

The Board consists of 16 directors with a variety of different experience, whose brief biographical particulars are set out on pages 76 to 79. Among them, three are executive directors, while the remaining 13 are non-executive directors. Of the 13 non-executive directors, seven are independent non-executive directors.

The Board of Directors is committed to the Bank’s objectives of consistently increasing shareholder value and providing superior services. It sets strategies and monitors the executive management. It meets regularly, normally eight times a year.

The Board has set up two committees, namely, the Executive Committee and the Audit Committee. The Executive Committee meets between Board meetings each month and the Audit Committee which is chaired by an independent non-executive Director meets regularly, normally four times a year. Details of these two committees are set out in the Report of the Directors on page 81.

### Internal Control

The Directors are responsible for internal control in the Bank and its subsidiaries and for reviewing its effectiveness.

The internal control system of the Bank comprises a well-established organisational structure and comprehensive policies and standards. Areas of responsibilities of each business and operational 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 the reliability of financial information used within the business or for publication. Such procedures can only provide reasonable and not absolute assurance against material errors, losses or fraud.

Systems and procedures are in place in the Bank to identify, control and report on the major types of risks including credit, market, capital, liquidity and operational. These risks are monitored by the Credit Committee, Asset and Liability Management Committee and the Executive Committee. Details of standards and procedures for management of individual types of risks are set out in the Financial Review section on pages 60 to 75.

In addition, procedures (ranging from the money laundering deterrence programme to health and safety rules) are established to avoid reputational risks which can arise from ethical, social or environmental issues, or as a consequence of operational risk events.

An annual operating plan is reviewed and approved by the Board. Reports on business performance compared with the plan are submitted to the Executive Committee and the Board of Directors for regular monitoring. A strategic plan is prepared every three to five years.

Internal audit plays an important role in the Bank's internal control framework. It monitors the effectiveness of internal control procedures and compliance with policies and standards across all business and operational units. It also advises management on operational efficiency and other risk management issues. The work of the internal audit function is focused on areas of greatest risk to the Bank as determined by a risk assessment approach. The head of internal audit of the Bank reports to the Chairman and the Audit Committee.

A review of the effectiveness of the Bank's internal control system covering all controls including financial, operational and compliance and risk management is conducted annually.

### **Employee Remuneration**

The Board of Directors strives to ensure that the remuneration is fair and attractive to potential employees, whilst motivating and retaining existing high-calibre staff.

The remuneration packages are structured to take due account of levels and composition of pay and the market positioning locally and in the territories outside Hong Kong in which the Bank operates.

To motivate staff to attain the best performance, the Bank adopts a performance-based remuneration system. Salaries are reviewed annually in the context of individual and business performance, market practice, internal relativities and competitive market conditions.

In appropriate circumstances, performance-related variable pay is provided as an incentive to staff. The level of the performance-related payment will depend on the performance of the Bank against the annual operating plan and the individual concerned. Subject to the attainment of predetermined targets, awards are made to staff under the relevant HSBC Group share plans as long-term incentives. In addition, eligible employees may subscribe to the HSBC Holdings savings-related share option plan.

### **Employee Involvement/Staff Development**

Effective communication channels are established to enable two-way information exchange between the Bank and its staff. Management-related matters such as the Bank's business direction, strategies and performance are communicated to staff through various means including internal business seminars, in-house magazines, morning broadcasts, management communication sessions and training programmes. Staff are welcome to give feedback on issues of concern. They are further encouraged to bring up their ideas via participating in work improvement programmes, cross-team projects and suggestion schemes. All these help to align the interests of the Bank with its staff in achieving the Bank's business growth.

Staff development programmes are provided. These programmes not only help staff members fulfil their personal career needs or their continuing professional training requirements for the regulated businesses/activities but also upgrade their performance to meet the Bank's future challenges.

#### **Code of Conduct**

To ensure that the Bank operates with professional competence and to a high level of ethical standards, the Bank has incorporated a Code of Conduct in the Staff Handbook which all staff members are required to follow strictly. The Code which is in line with the relevant regulatory guidelines and other best industry practices, sets out ethical standards and values staff are required to adhere to and covers various legal, regulatory and ethical issues which include topics on prevention of bribery, staff dealing in securities, personal benefits and outside employment.

Staff members are reminded from time to time of the requirements of the Code which is reviewed and updated periodically.

#### **Health and Safety**

The Bank recognises the need for effective management of health and safety in order to provide a safe working environment. The Bank's objectives are to identify health, safety and fire risks in advance, assess the attendant risks and effect any necessary measures to remove, reduce or control material risks of fires and of accidents or injuries to employees and visitors.

Health and safety standards, policies, rules and procedures have been set up and are implemented by the Bank's Fire and Safety Officer. Dedicated commitment by all levels of staff is fostered through various means, such as periodic training courses and emergency drills, for the compliance of both the statutory requirements and internal policies, rules and procedures on health and safety standards.

#### **Communication with Shareholders**

The Bank attaches great importance to communications with shareholders and a number of means is used to promote greater understanding and dialogue with investment audiences. The Bank's annual and interim results announcements are webcast live. The Annual and Interim Reports contain comprehensive information on business strategies and developments. The Annual General Meeting is an opportunity for communicating with shareholders and Board members are available to answer questions on the business. Designated senior executives maintain regular dialogue with institutional investors and analysts to keep them abreast of the Bank's development. The website [www.hangseng.com](http://www.hangseng.com) offers an investor relations section and timely access to the Bank's press releases and other business information.