

## CORPORATE GOVERNANCE AND OTHER INFORMATION

Hang Seng is committed to high standards of corporate governance. The Bank has followed the module on "Corporate Governance of Locally Incorporated Authorised Institutions" under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority ("HKMA") and all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year.

### BOARD OF DIRECTORS

#### The Board

The Board has collective responsibility for leadership and control of, and for promoting the success of, the Bank by directing and supervising the Bank's affairs.

The types of decisions which are to be taken by the Board include those relating to:

- annual plans and performance targets;
- specified senior appointments;
- acquisitions and disposals above predetermined thresholds; and
- any substantial change in balance sheet management policy.

#### Chairman And Chief Executive

The roles of Chairman of the Board and Chief Executive of the Bank are segregated, with a clear division of responsibilities. The Chairman of the Board is an independent non-executive Director who is responsible for the leadership and effective running of the Board. The Chief Executive of the Bank is an executive Director who exercises all the powers, authorities and discretions of the Executive Committee as may be delegated to him in respect of the Bank and its subsidiaries.

#### Board Composition

As at the date of this Annual Report, the Board comprises 16 Directors, of whom three are executive Directors and 13 are non-executive Directors. Of the 13 non-executive Directors, nine are independent non-executive Directors. All the independent non-executive Directors meet the guidelines for assessment of independence as set out

in Rule 3.13 of the Listing Rules. There is a strong independent element on the Board, which can effectively exercise independent judgement.

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

#### Board Process

Regular Board/Committee meeting schedules for each year are made available to all Directors/Committee members at the beginning of the year. In addition, notice of meetings will be given to all Directors prior to each Board meeting, normally at least 14 days in advance.

Other than regular Board meetings, in 2008, the Chairman also met with non-executive Directors, including independent non-executive Directors, without the presence of executive Directors, to discuss general issues including board governance and risk management.

All Directors have access to the Company Secretary who is responsible for ensuring that the 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.

Minutes of Board/Committee meetings are kept by the Company Secretary and are open for inspection by Directors.

#### Appointments, Re-election And Removal

The Bank's Articles of Association provide that each Director is required to retire by rotation once every three years and that one-third (or the number nearest to one-third) of the Directors shall retire from office every year at the Bank's Annual General Meeting. A Director's specific term of appointment, therefore, cannot exceed three years. Retiring Directors shall be eligible for re-election at the Annual General Meeting of the Bank.

The Bank uses a formal, considered and transparent procedure for the appointment of new Directors. Before a prospective Director's name is formally proposed, the opinions of the existing Directors (including the independent non-executive Directors) are sought. The appointment will be considered and if thought fit, approved by the Board after due deliberation. In accordance with the requirement under the Banking Ordinance, approval from HKMA will also be obtained. All new Directors are subject to election by shareholders of the Bank at the next scheduled Annual General Meeting after their appointments have become effective.

There was no change to the composition of the Board during the year 2008.

### Responsibilities Of Directors

The Bank regularly reminds all Directors of their role and responsibilities. Through regular Board meetings, all Directors are kept abreast of the conduct, business activities and development of the Bank.

Induction programmes are arranged for newly appointed Directors. All Directors are given opportunities to update and develop their skills and knowledge.

All Directors have full and timely access to all relevant information about the Bank so that they can discharge their duties and responsibilities as Directors. 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 senior 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). 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.

Appropriate Directors' liability insurance cover has also been arranged to indemnify the Directors for liabilities arising out of corporate activities.

The interests in Group securities, including HSBC Holdings plc and the Bank, held by the Directors as at 31 December 2008 are disclosed in the Directors' Report set out in this Annual Report.

### Board Members' Attendance

Name	Number of meetings attended during 2008
Dr Raymond K F Ch'ien* ( <i>Chairman</i> )	7 out of 7
Mr Raymond C F Or ( <i>Vice-Chairman and Chief Executive</i> )	7 out of 7
Mr Edgar D Ancona#	7 out of 7
Mr John C C Chan*	5 out of 7
Mr Patrick K W Chan ( <i>Executive Director and Chief Financial Officer</i> )	7 out of 7
Dr Y T Cheng*	7 out of 7
Dr Marvin K T Cheung*	5 out of 7
Mr Alexander A Flockhart#	4 out of 7
Mr Jenkin Hui*	7 out of 7
Mr Peter T C Lee*	7 out of 7
Dr Eric K C Li*	7 out of 7
Dr Vincent H S Lo#	4 out of 7
Mr Joseph C Y Poon ( <i>Managing Director and Deputy Chief Executive</i> )	7 out of 7
Dr David W K Sin*	7 out of 7
Mr Richard Y S Tang*	7 out of 7
Mr Peter T S Wong#	6 out of 7

\* Independent non-executive Directors

# Non-executive Directors

## DELEGATION BY THE BOARD

### Board Committees

The Board has set up three committees: the Executive Committee, the Audit Committee and the Remuneration Committee.

Each of these committees has specific written terms of reference which deal clearly with their authority and duties. All committees, except the Executive Committee, are comprised solely of independent non-executive Directors. All committees report back to the Board on their decisions or recommendations on a regular basis.

BOARD		
Executive Committee	Audit Committee	Remuneration Committee
Members: Mr Raymond C F Or (Chairman) Mr Joseph C Y Poon Mr Patrick K W Chan Mr William W Leung Mrs Dorothy K Y P Sit Mr Andrew H C Fung	Members: Dr Eric K C Li (Chairman) Mr Richard Y S Tang Dr Marvin K T Cheung	Members: Mr John C C Chan (Chairman) Mr Jenkin Hui Mr Peter T C Lee

The **Executive Committee** meets at least once each month and operates as a general management committee under the direct authority of the Board. It exercises the powers, authorities and discretions of 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.

To further enhance the Bank's risk management framework and in line with best practices, the Bank set up a Risk Management Committee in July 2008 to centralise the risk management oversight function of the Bank. The Committee reports directly to the Executive Committee. Its main functions are to review, analyse, evaluate, recognise and manage various risks of the Bank, including all the eight types of risks stipulated in the Supervisory Policy Manual of HKMA, namely, credit risk, market risk, liquidity risk, interest rate risk, operational risk, legal risk, reputation risk and strategic risk. It is also responsible for approval of all risk management related policies.

The **Audit Committee** meets regularly, normally at least four times a year, with the senior financial, internal audit and compliance executives and the external auditors, to consider, among other things, the Bank's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance. It is also responsible for the appointment, reappointment, removal and remuneration of the Bank's external auditors. The Audit Committee reports to the Board following each Audit Committee meeting, drawing the Board's attention to salient points that the Board should be aware of, identifying any matters in respect of which it considers that action or improvement is needed and making relevant recommendations.

The **Remuneration Committee** considers human resources issues and makes recommendations to the Board on the Bank's policy and structure for remuneration of Directors and senior management. It meets at least twice a year.

## Committee Members' Attendance

Name	Number of meetings attended during 2008		
	Executive Committee	Audit Committee	Remuneration Committee
Mr Raymond C F Or	14 out of 14	–	–
Mr John C C Chan*	–	–	2 out of 2
Mr Patrick K W Chan	13 out of 14	–	–
Dr Marvin K T Cheung*	–	5 out of 5	–
Mr Jenkin Hui*	–	–	2 out of 2
Mr Peter T C Lee*	–	–	2 out of 2
Dr Eric K C Li*	–	5 out of 5	–
Mr Joseph C Y Poon	13 out of 14	–	–
Mr Richard Y S Tang*	–	5 out of 5	–
Mr William W Leung <sup>Ø</sup>	13 out of 14	–	–
Mrs Dorothy K Y P Sit <sup>Ø</sup>	12 out of 14	–	–
Mr Andrew H C Fung <sup>Ø</sup> (Note)	12 out of 12	–	–

\* Independent non-executive Directors

Ø General Managers

(Note: Mr Andrew H C Fung was appointed a member of the Executive Committee with effect from 19 February 2008.)

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

### The Level And Make-up Of Remuneration

The Remuneration Committee is responsible for the policy on remuneration of Directors and senior management.

The Remuneration Committee held two meetings in 2008. The major work performed by the Committee during 2008 included:

- reviewing the fees payable to the Directors and the members of the Board Committees of the Bank and its subsidiaries;
- reviewing the remuneration of the executive Directors and senior management of the Bank and the Directors of the Bank's subsidiaries;
- reviewing the proposed bonus pool under the Variable Incentive Scheme of the Bank;
- determining the remuneration packages of two newly appointed senior executives of the Bank and the fees payable to Audit Committee members of the Bank's insurance subsidiaries; and
- reviewing the pay review proposal.

The Bank's policy on remuneration is to maintain fair and competitive packages based on business needs and industry practice. For determining the level of fees paid to the Directors, market rates and factors such as each Director's workload and required commitment will be taken into account. The following factors are considered when determining the remuneration packages of executive Directors:

- business needs;
- general economic situation, including GDP growth and local inflation rates;
- changes in appropriate markets such as supply/demand fluctuations and changes in competitive conditions;
- individual contributions to results as confirmed in the performance appraisal process; and
- retention consideration and individual potential.

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

The present scale of Director's fees, and additional fees for membership on the Audit Committee and Remuneration Committee, is outlined below:

	Amount
<b>Board of Directors:</b>	
<b>Director's annual fees</b>	
Chairman	HK\$360,000
Vice-Chairman	Nil*
Other directors	HK\$280,000*
<b>Audit Committee:</b>	
<b>Additional annual fees</b>	
Chairman	HK\$120,000
Other members	HK\$80,000
<b>Remuneration Committee:</b>	
<b>Additional annual fees</b>	
Chairman	HK\$60,000
Other members	HK\$40,000

\* In line with the remuneration policy of HSBC Group, no Directors' fees are paid to the executive Directors of the Bank (including the Vice-Chairman) commencing from 1 January 2008.

Information relating to the remuneration of each Director for 2008 is set out in Note 19 to the Bank's 2008 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 a yearly basis. Reports on financial results, business performance and variances against the approved annual operating plan are submitted to the Board for regular discussion and monitoring at Board meetings.

Strategic planning cycles are generally from three to five years. The Bank's Strategic Plan for 2008 to 2012 was reviewed by the Bank's Board in January 2008.

The annual and interim results of the Bank are announced in a timely manner within the limits of three months and two months respectively after the end of the relevant periods.

The Directors acknowledge their responsibility for preparing the accounts of the Bank. As at 31 December 2008, the

Directors are 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 Directors have prepared the financial statements of the Bank on a going-concern basis.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditor's Report attached to the Bank's 2008 Financial Statements.

### Internal Controls

#### System And Procedures

The Directors are responsible for internal control at 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 faces. Business and functional units are responsible for the assessment of individual types of risk arising under their areas of responsibility, the management of the risks in accordance with risk management procedures and reporting on risk management. The relevant risk management reports are submitted to Executive Committee, Audit Committee, Asset and Liability Management Committee, Risk Management Committee and Credit Committee, and subsequently to the Board for monitoring the respective types of risk. The Board will also approve risk management policies and major risk control limits.

More detailed discussions on the policies and procedures for management of each of the major types of risk the Bank faces, including credit, market, liquidity and operational risks, are included in the risk management section of the "Financial Review" section under the Bank's 2008 Annual Report, and in Note 62 to the Bank's 2008 Financial Statements.

### Annual Assessment

A review of the effectiveness of the Bank's internal control system covering all controls, including financial, operational and compliance and risk management controls, is conducted annually. The review at the end of 2008 was conducted with reference to the COSO (The Committee of Sponsoring Organisations) internal control framework, which assesses the Bank's internal control system against the five elements of control environment, risk assessment, control activities, communication and monitoring. Such annual review will also consider the adequacy of resources, qualifications and experience of staff of the Bank's accounting and financial reporting function, and their training programmes and budget. The result of the annual review has been reported to the Audit Committee and the Board.

### Internal Audit

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 functional units. All management letters from external auditors and reports from regulatory authorities will be reviewed by the Audit Committee and all recommendations will be implemented. Management is required to annually provide the internal audit function with written confirmation that it has acted fully on all recommendations made by external auditors and regulatory authorities. The internal audit function 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 risk assessment. The head of internal audit of the Bank reports to the Chairman and the Audit Committee.

### External Auditors

KPMG is the Bank's external auditors. The Audit Committee is responsible for making recommendations to the Board on the appointment, reappointment, removal and remuneration of the external auditors. The external auditors' independence and objectivities are also reviewed and monitored by the Audit Committee.

During 2008, fees paid to the Bank's external auditors for audit services totalled HK\$12.8 million, compared with HK\$11.8 million in 2007. For non-audit services, the fees paid amounted to HK\$6.5 million, compared with HK\$6.6 million in 2007. The significant non-audit service assignments covered by these fees include the following:

Nature of service	Fees paid (HK\$m)
Other assurance services	6.2
Tax services	0.3
	<u>6.5</u>

### Audit Committee

The Audit Committee assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting obligations.

The Audit Committee held five meetings in 2008. The major work performed by the Committee during 2008 included:

- reviewing the Directors' Report and full-year financial statements for the year ended 31 December 2007 and the annual results announcement;
- reviewing the interim financial statements for the six months ended 30 June 2008 and the interim results announcement;
- reviewing the recently issued accounting standards, and the progress of implementation in relation to the Sarbanes-Oxley Act and Basel II;
- reviewing the establishment of an audit committee of Hang Seng Insurance Company Limited ("HSIC"), a wholly-owned subsidiary of the Bank;
- reviewing the internal audit plan for 2009;
- reviewing essential matters or high-level reports relating to financial control, internal audit, credit and compliance, and the system of internal control, and discussing the same with the Management;
- reviewing risk-related matters;

- monitoring the staffing and resources of the Bank's internal audit function;
- reviewing the oversight and monitoring of accounting risk of the Bank;
- reviewing the economic valuation models for the Bank's balance sheet management portfolio;
- reviewing the IT governance and risk control of the Bank; and
- exercising oversight over the audit committees of the Bank's principal subsidiaries.

The Audit Committee meets with the Bank's external auditors on a regular basis.

## 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. Including the two results announcements, a total of 98 meetings with 246 analysts and fund managers from 108 companies were held in 2008. The Bank's Chief Financial Officer made presentations at major investor forums held in Hong Kong. The Bank's website [www.hangseng.com](http://www.hangseng.com) contains an investor relations section which offers timely access to the Bank's press releases and other business information.

The Annual General Meeting provides a useful forum for shareholders to exchange views with the Board. The Bank's Chairman, executive Directors, Chairman of the Audit Committee and non-executive Directors are available at the Annual General Meeting to answer questions from shareholders. Separate resolutions are proposed at general meetings for each substantial issue, including the re-election of individual Directors. An explanation of the detailed procedures of conducting a poll will be provided to shareholders at the commencement of the Annual General Meeting, to ensure that shareholders are familiar with such procedures.

The Bank's last Annual General Meeting was held on Thursday, 24 April 2008 at 3:30 pm at the Penthouse of Hang Seng Bank Headquarters, 83 Des Voeux Road Central, Level 24, Hong Kong. All the resolutions proposed at that meeting were approved by shareholders of the Bank by poll voting. Details of the poll results are available under the investor relations section of the Bank's website at [www.hangseng.com](http://www.hangseng.com).

The next Annual General Meeting of shareholders will be held on Wednesday, 6 May 2009, the notice of which will be sent to shareholders at least 20 clear business days before the 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 2009.

## OTHER INFORMATION

The Annual and Interim Reports contain comprehensive information on business strategies and developments. Discussions and analyses of the Bank's performance during 2008 and the material factors underlying its results and financial position can be found in the sections "Business in Hong Kong and on the Mainland" and "Financial Review" in this Annual Report.

### Material Related Party Transactions And Contracts Of Significance

The Bank's material related party transactions are set out in Note 61 to the 2008 Financial Statements. These transactions include those that the Bank has entered into with its immediate holding company and its subsidiaries and fellow subsidiary companies in the ordinary course of its interbank activities, including lending activities, acceptance and placement of interbank deposits, correspondent banking transactions, off-balance sheet transactions, and the provision of other banking and financial services.

The Bank uses the IT 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 IT and certain processing services with fellow subsidiaries on a cost recovery basis. For 2008, the Bank's share of the costs include HK\$208 million for system development services, HK\$161 million for data processing, and HK\$48 million for administrative services.



The Bank maintains a staff retirement benefit scheme for which a fellow subsidiary company acts as insurer and administrator. As part of its ordinary course of business with other financial institutions, the Bank also markets Mandatory Provident Fund products and distributes retail investment funds for fellow subsidiaries, with a fee income of HK\$63 million and HK\$38 million respectively in 2008. Hang Seng Investment Management Limited, a wholly owned subsidiary of the Bank, manages in the ordinary course of its business a fund administered by a fellow subsidiary, to whom management fee rebates were made. The rebate for 2008 amounted to HK\$102 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 constitute connected transactions under the Listing Rules, they also comply with applicable requirements under the Listing Rules. The Bank regards its usage of the IT services of The Hongkong and Shanghai Banking Corporation Limited (amount of IT services cost incurred for 2008: HK\$519 million) as contracts of significance for 2008.

#### **Disclosure Of Continuing Connected Transactions In Accordance With Rules 14A.46 Of The Listing Rules** **Continuing Connected Transactions**

(a) On 22 June 2007, Hang Seng Life Limited (“HSL”) entered into a new management services agreement (“New Management Services Agreement”) with HSBC Life (International) Limited (“INH”), a wholly-owned subsidiary of HSBC Insurance (Asia-Pacific) Holdings Limited which is an indirect wholly-owned subsidiary of HSBC Holdings plc (“HBS”). Pursuant to the New Management Services Agreement, INH will continue to provide certain management services, being services related to risk management, back office processing and administration, development and pricing for selected products, information technology and business recovery, financial control and actuarial services, to HSL to enable HSL to conduct its life insurance business. INH will provide the management services to HSL for a term of three years.

INH will charge HSL for the provision of the services on a fully absorbed cost basis plus a mark-up of 5%. These charges have been determined following negotiation on an arm’s length basis and in accordance with the policy of HSBC Group, which takes into account the transfer pricing guidelines of UK and the Organisation for Economic Co-operation and Development.

The New Management Services Agreement also provides that HSL may assign to one or more of the wholly-owned subsidiaries of the Bank the benefits of and interests and rights in or arising under the New Management Services Agreement and may elect to have one or more such subsidiary to receive and pay for the management services or perform any of its duties or obligations under the New Management Services Agreement without obtaining the prior consent of INH.

(b) On 22 June 2007, HSL also entered into a new investment management agreement (“New Investment Management Agreement”) with HSBC Investments (Hong Kong) Limited (“ISH”), a wholly-owned subsidiary of HSBC, pursuant to which ISH will continue to act as investment manager in respect of certain of HSL’s assets held from time to time to maintain business continuity of HSL. ISH will provide investment management services to HSL for a term of three years.

HSL will pay to ISH a fee of between 0.17% and 0.375% per annum of the mean value of the assets under management, which has been determined on an arm’s length basis.

The New Investment Management Agreement also provides that HSL may assign to one or more of the wholly-owned subsidiaries of the Bank the benefits of and interests and rights in or arising under the New Investment Management Agreement and may elect to have one or more such subsidiary to receive and pay for the services or perform any of its duties or obligations under the New Investment Management Agreement without obtaining the prior consent of ISH.

HSL has become a wholly-owned subsidiary of HSIC, a wholly-owned subsidiary of the Bank, since September 2007. INH and ISH are connected persons of the Bank by virtue of HSBC’s indirect shareholding of shares in the Bank representing approximately 62.14% of its issued share capital. Therefore, the New Management Services Agreement and the New Investment Management Agreement (collectively “the New Agreements”) constituted continuing connected transactions for the Bank under the Listing Rules. Details of the New Management Services Agreement and the New Investment Management Agreement were announced by the Bank on 22 June 2007.



As part of the plan of the Bank to rationalize its insurance business structure, HSL's long term insurance business has been integrated into that of HSIC. Accordingly, all rights and obligations under the agreements entered into between HSL and the third parties have then been novated to HSIC. These agreements include, among others, the New Management Services Agreement and the New Investment Management Agreement.

For the year ended 31 December 2008, the aggregate amounts paid under the New Management Services Agreement and the New Investment Management Agreement were HK\$108.7 million and HK\$50.2 million respectively.

In respect of the above continuing connected transactions (the "Continuing Connected Transactions"), all the independent non-executive Directors of the Bank have reviewed the transactions and confirmed that the transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms; and
- (3) in accordance with the New Agreements on terms that are fair and reasonable and in the interests of the Bank and its shareholders as a whole.

The external auditors of the Bank have also confirmed that the Continuing Connected Transactions:

- (1) have been approved by the Boards of Directors of the Bank, HSL and HSIC;
- (2) have agreements in place governing the Continuing Connected Transactions;
- (3) have been entered into in accordance with the pricing terms of the relevant agreements governing the Continuing Connected Transactions or better terms from the Bank's perspective; and
- (4) have not exceeded the annual cap amount as set out in the announcement dated 22 June 2007 released by the Bank relating to the Continuing Connected Transactions.

## Human Resources

The human resources policies of the Bank are designed to attract people of the highest calibre and to motivate them to excel in their careers, as well as uphold the Bank's brand equity and culture of quality service.

## Employee Statistics

As at 31 December 2008, the Bank's total headcount was 9,764, reflecting an increase of 574, or 6.2 per cent, compared with a year earlier. The total comprised 1,083 executives, 3,811 staff officers and 4,870 clerical and non-clerical staff.

## Employee Remuneration

Compensation packages take into account levels and composition of pay in the markets in which the Bank operates. Salaries are reviewed in the context of individual and business performance, market practice, internal relativities and competitive market pressures.

Under appropriate circumstances, performance-related variable pay is provided as an incentive for staff. In 2008, incentive payments were made to staff members who had chosen to join the Bank's New Annual Pay Scheme with variable bonus under performance-based remuneration strategy.

Since 1999, the Bank has participated in the HSBC Holdings Savings-related Share Option Plan (Sharesave), under which staff members can make monthly savings for the purchase of HSBC Group shares at a discounted price after a specified period. For Sharesave 2008, 3,458 staff members had subscribed to the plan.

Other incentive awards were also made. More than 1,800 staff with outstanding performance and/or good potential were rewarded with HSBC Group shares or cash award in 2008.

## Employee Involvement

Communication with staff is a key aspect of the Bank's policies. Information relating to employment matters, the Bank's business direction, and strategies and factors affecting the Bank's performance are conveyed to staff via different channels, including interchange sessions, focus group meetings, an intranet site, in-house magazines, morning broadcasts and training programmes.

The second bankwide Global People Survey was conducted in July 2008 as a continuous initiative to measure staff engagement level. The results in September 2008 were very positive and communication sessions to staff were organised to disseminate the survey results.

### Staff Development

In order to fully develop staff members' potential, the Bank offers a wide range of training programmes that help them fulfill their personal career goals or professional training requirements, including those for regulated businesses and activities, while equipping them to meet future challenges.

New staff joining the Bank attend an induction programme that provides them with a better understanding of the history, culture and values of the Bank. Continuous educational development is provided to staff through the Bank's Learning Resource Centre, multi-media programmes, an intranet site, online quizzes, classroom instruction, seminars and branch online videos. Staff members are also encouraged to pursue professional or academic qualifications through the Bank's Education and Professional Qualification Award System.

The average number of training days per staff member in 2008 was six days.

### Recruitment And Retention

Vigorous external recruitment activities continued in the first half year of 2008, especially for front-line sales positions and experienced professionals and specialists. Special reviews were done on job families with high turnover and vulnerable individuals and retention programmes were developed. Following the financial tsunami in the second half of year 2008, the labour market became less active and thus staff turnover of the Bank was stabilized. In view of the difficult operating environment, the Bank had responded quickly to control headcount and staff cost growth via natural attrition, staff-on-loan and staff redeployment. External recruitment was restricted only to cases justified by business needs.

As part of the Bank's staff retention programme, packages and career paths for certain job positions have been reviewed to increase career advancement opportunities and ensure market competitiveness. Trainee programmes were continued for jobs in selected functional areas to build pipeline for succession.

### Code Of Conduct

To ensure the Bank operates according to the highest standards of ethical conduct and professional competence, all staff are required to strictly follow the Code of Conduct (the "Code") contained in the Staff Handbook. Following the relevant regulatory guidelines and other industry best practices, the Code sets out ethical standards and values to which staff are required to adhere and covers various legal, regulatory and ethical issues. These include topics such as prevention of bribery, dealing in securities, personal benefits, outside employment and anti-discrimination 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.

### 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 focuses on identifying health, safety and fire risks in advance, taking any measures necessary to remove, reduce or control material risks of fires and of accidents or injuries to employees and visitors.

The Bank maintained a Communicable Diseases Plan. This sets out the key issues to be addressed and the responses to be taken in the event of a similar occurrence involving a serious communicable disease. To get the Bank prepared for the outbreak of avian influenza, an Avian Influenza Contingency Manual was prepared jointly by various divisions with reference to the SARS experience, and Tamiflu was stockpiled for 100% of the Bank staff in case of an outbreak of avian influenza. Staff have been made aware through various channels of the importance of personal hygiene and health, and informed of the contingency measures to adopt should there be an outbreak of avian influenza.

To promote the importance of work life balance and foster a happy workplace culture, a Staff Recreation Centre was maintained at Mega Site to provide staff members with various facilities for physical exercises and leisure activities.