

# Corporate Governance and Other Information

Hang Seng is committed to high standards of corporate governance with a view to safeguarding the interests of shareholders, customers, staff and other stakeholders. 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 has fully complied with all the code provisions and most of the recommended best practices as 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. The Bank also keeps its corporate governance framework under constant review to ensure that it is in line with international and local best practices.

## 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:

- five-year strategic plan;
- annual operating plans and performance targets;
- annual and interim results;
- specified senior appointments;
- acquisitions and disposals above predetermined thresholds; and
- substantial changes to balance sheet management policies.

### 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 is an Executive Director who exercises all the powers, authorities and discretions of the Executive Committee as may be delegated to her in respect of the Bank and its subsidiaries.

## Board Composition

As at the date of this Annual Report, the Board comprises 13 Directors, of whom two are Executive Directors and 11 are Non-executive Directors. Of the 11 Non-executive Directors, six are Independent Non-executive Directors. 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.

All the Independent Non-executive Directors meet the guidelines for assessment of independence as set out in Rule 3.13 of the Listing Rules. The Bank has also received from each of the Independent Non-executive Directors an annual confirmation of his independence.

Members of the Board, 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 before the end of the preceding year. In addition, notice of meetings will be given to all Directors prior to each Board meeting, at least 14 days in advance.

Other than regular Board meetings, in 2009, the Chairman also met with Non-executive Directors, including Independent Non-executive Directors, without the presence of Executive Directors, to facilitate an open and frank discussion among the Non-executive Directors on issues relating to the Bank.

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

The Board reviews and evaluates its work process and effectiveness annually, with a view to identifying areas for improvement and further enhancement.

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 generally 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 are eligible for re-election at Annual General Meetings 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, opinions of the existing Directors (including the Independent Non-executive Directors) will be solicited. 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 Annual General Meeting after their appointments have become effective.

Four new Directors were appointed in 2009, namely, Mrs Margaret Leung Ko May Yee, Mrs Dorothy Sit Kwan Yin Ping, Mr William Leung Wing Cheung and Mr Iain James Mackay. Mrs Margaret Leung's appointment was approved by the Board at its meeting held on 24 February 2009 and she was elected by the Bank's shareholders at its Annual General Meeting held on 6 May 2009. The appointments of the other three new directors were approved by the Board at its meeting held on 28 July 2009 and will be put forward to the Bank's shareholders for election at its Annual General Meeting to be held on 14 May 2010.

### **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 as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (as 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 coverage and the sum insured under the policy are reviewed annually.

The interests in Group securities, including securities relating to HSBC Holdings plc and the Bank, held by the Directors as at 31 December 2009 are disclosed in the Directors' Report as set out in this Annual Report.

# Corporate Governance and Other Information

## Board Members' Attendance

| Name   | Number of meetings attended during 2009 |
|--|---|
| Dr Raymond K F Ch'ien* ( <i>Chairman</i> )   | 7 out of 7                              |
| Mrs Margaret Leung ( <i>Vice-Chairman and Chief Executive</i> )<br>( <i>Appointed as Non-executive Director with effect from 1 April 2009 and as Vice-Chairman and Chief Executive with effect from 6 May 2009</i> ) | 4 out of 5                              |
| Mr Raymond C F Or ( <i>Former Vice-Chairman and Chief Executive</i> )<br>( <i>Retired from the Board with effect from 6 May 2009</i> )   | 3 out of 3                              |
| Mr Edgar D Ancona#<br>( <i>Resigned as Director with effect from 1 September 2009</i> )  | 5 out of 5                              |
| Dr John C C Chan*  | 7 out of 7                              |
| Mr Patrick K W Chan ( <i>Former Executive Director and Chief Financial Officer</i> )<br>( <i>Retired from the Board with effect from 6 May 2009</i> )  | 2 out of 3                              |
| Dr Y T Cheng*<br>( <i>Resigned as Director with effect from 6 May 2009</i> )   | 2 out of 3                              |
| Dr Marvin K T Cheung*  | 4 out of 7                              |
| Mr Alexander A Flockhart#  | 6 out of 7                              |
| Mr Jenkin Hui*   | 6 out of 7                              |
| Mr Peter T C Lee*<br>( <i>Passed away on 17 October 2009</i> )   | 5 out of 6                              |
| Mr William W Leung<br>( <i>Appointed as Executive Director with effect from 7 August 2009</i> )  | 2 out of 2                              |
| Dr Eric K C Li*  | 7 out of 7                              |
| Dr Vincent H S Lo#   | 6 out of 7                              |
| Mr Iain J Mackay#<br>( <i>Appointed as Non-executive Director with effect from 1 September 2009</i> )  | 2 out of 2                              |
| Mr Joseph C Y Poon ( <i>Former Managing Director and Deputy Chief Executive</i> )<br>( <i>Resigned from the Board with effect from 30 September 2009</i> )   | 6 out of 6                              |
| Dr David W K Sin*<br>( <i>Resigned as Director with effect from 6 May 2009</i> )   | 2 out of 3                              |
| Mrs Dorothy K Y P Sit#<br>( <i>Appointed as Non-executive Director with effect from 7 August 2009</i> )  | 2 out of 2                              |
| 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, namely, the Executive Committee, the Audit Committee and the Remuneration Committee, to assist it in carrying out its responsibilities.

Each of these committees has specific written terms of reference which set out in detail their respective authorities and responsibilities. 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: Mrs Margaret Leung<br>(Chairman)<br>Mr William W Leung<br>Mr Andrew H C Fung<br>Mr David W H Tam<br>Mr Andrew W L Leung<br>Mr Christopher H N Ho<br>Mr Nixon L S Chan | Members: Dr Eric K C Li<br>(Chairman)<br>Mr Richard Y S Tang<br>Dr Marvin K T Cheung | Members: Dr John C C Chan<br>(Chairman)<br>Mr Jenkin Hui |

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 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 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 Committee to centralise the risk management oversight function of the Bank. The Risk Management 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 and compliance risk, reputation risk and strategic risk. In addition, the Risk Management Committee also covers insurance risk, pension risk and sustainability risk, and is responsible for approval of all risk management related policies.

The **Audit Committee** meets regularly, normally at least four times a year, with the Bank's senior executives from financial control, internal audit and compliance, 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.

# Corporate Governance and Other Information

## Committee Members' Attendance

| Name   | Number of meetings attended during 2009 |                 |                        |
|--|---|-----------------|------------------------|
|  | Executive Committee                     | Audit Committee | Remuneration Committee |
| Mrs Margaret Leung   | 8 out of 8                              | –               | –                      |
| Mr Raymond C F Or<br>(Ceased to be a member with effect from 6 May 2009)         | 4 out of 4                              | –               | –                      |
| Dr John C C Chan*  | –                                       | –               | 3 out of 3             |
| Mr Patrick K W Chan<br>(Ceased to be a member with effect from 8 July 2009)      | 5 out of 6                              | –               | –                      |
| Dr Marvin K T Cheung*  | –                                       | 5 out of 5      | –                      |
| Mr Jenkin Hui*   | –                                       | –               | 3 out of 3             |
| Mr Peter T C Lee*<br>(Passed away on 17 October 2009)                            | –                                       | –               | 2 out of 2             |
| Mr William W Leung   | 12 out of 12                            | –               | –                      |
| Dr Eric K C Li*  | –                                       | 5 out of 5      | –                      |
| Mr Joseph C Y Poon<br>(Ceased to be a member with effect from 30 September 2009) | 8 out of 9                              | –               | –                      |
| Mrs Dorothy K Y P Sit<br>(Ceased to be a member with effect from 7 August 2009)  | 7 out of 7                              | –               | –                      |
| Mr Richard Y S Tang*   | –                                       | 5 out of 5      | –                      |
| Mr Andrew H C Fung   | 12 out of 12                            | –               | –                      |
| Mr David W H Tam (Note)  | 3 out of 3                              | –               | –                      |
| Mr Andrew W L Leung (Note)   | 3 out of 3                              | –               | –                      |
| Mr Christopher H N Ho (Note)   | 2 out of 3                              | –               | –                      |
| Mr Nixon L S Chan (Note)   | 3 out of 3                              | –               | –                      |

\* Independent Non-executive Directors

(Note: Mr David W H Tam (Chief Risk Officer), Mr Andrew W L Leung (Chief Financial Officer), Mr Christopher H N Ho (Chief Technology and Services Officer) and Mr Nixon L S Chan (Head of Corporate and Commercial Banking) were appointed members of the Executive Committee in October 2009.)

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

### The Level and Make-up of Remuneration

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

The Remuneration Committee held three meetings in 2009. The major work performed by the Committee during 2009 included:

- reviewing the fees payable to the Directors and the Committee Chairmen/Members of the Board Committees of the Bank and its subsidiaries;
- reviewing the remuneration of the Executive Directors and senior management of the Bank;

- reviewing the proposed bonus pool under the Variable Incentive Scheme of the Bank;
- determining the remuneration packages of newly appointed senior executives of the Bank;
- reviewing the pay review proposal of the Bank; and
- reviewing HKMA's consultation paper on the draft "Guideline on a Sound Remuneration System".

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 and market sentiment following the financial crisis in late 2008;
- 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 scales of Director's fees, and additional fees for Chairmen and members of the Audit Committee and Remuneration Committee, are 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 those Directors who are full time employees of the Bank or its subsidiaries.

Information relating to the remuneration of each Director for 2009 is set out in Note 19 to the Bank's 2009 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, following an interim review and adjustments, was reviewed by the Bank's Board in December 2009. Progress on the implementation of the Strategic Plan was reported to and reviewed by the Board on a regular basis.

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 year or period.

The Directors acknowledge their responsibilities for preparing the accounts of the Bank. As at 31 December 2009, 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 2009 Financial Statements.

### Internal Controls

#### System and Procedures

The Board is 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.

# Corporate Governance and Other Information

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 responsibilities, 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 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 procedures of the Bank.

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" under the Bank's 2009 Annual Report, and in Note 62 to the Bank's 2009 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 2009 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

The internal audit function 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 the 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 Bank's Head of Audit 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 2009, fees paid to the Bank's external auditors for audit services totalled HK\$13.4 million, compared with HK\$12.8 million in 2008. For non-audit services, the fees paid amounted to HK\$5.6 million, compared with HK\$6.5 million in 2008. In 2009, the significant non-audit service assignments covered by these fees include the following:

| Nature of service        | Fees paid (HK\$m) |
|--------------------------|-------------------|
| Other assurance services | 5.2               |
| Tax services             | 0.4               |
|                          | <hr/> 5.6         |

## 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 2009. The major work performed by the Committee during 2009 included:

- reviewing the Bank's financial statements for the year ended 31 December 2008 and the related documents, and the management letter and audit issues noted by the Bank's external auditors;



- reviewing the Bank's interim financial statements for the six months ended 30 June 2009 and the related documents, and the issues noted by the Bank's external auditors;
- reviewing the revised accounting standards and prospective changes to accounting standards, and the impact on the Bank's financial reporting;
- reviewing the implementation progress of Sarbanes-Oxley Act and Basel II;
- reviewing the internal audit plan for 2010 and monitoring the staffing and resources of the Bank's internal audit function;
- reviewing essential matters or high-level reports relating to financial control, internal audit, credit, compliance and internal control, and discussing the same with the Management;
- reviewing risk-related matters including the Bank's risk management framework, risk maps, and balance sheet management position;
- reviewing regulatory review reports and internal audit reports, and discussing the same with the Management and Head of Audit;
- reviewing the remuneration and engagement letters of external auditors, and the objectivity and independence of external auditors;
- initiating and approving the Bank's Policy for the Reporting of Improprieties by staff and monitoring its implementation and effectiveness;
- exercising enhanced oversight over the audit committees of the Bank's principal subsidiaries.

The Audit Committee meets with the Bank's external auditors and Head of Audit on a regular basis and also meets with them without the presence of the Management at least once a year. Further, the Audit Committee meets with the HKMA to maintain a regular dialogue with the regulator and to share HKMA's general views on their supervisory focus. In order to identify areas for further improvements, the Audit Committee conducts an annual gap analysis as regards the effective discharge of its role and responsibilities under its terms of reference.

## 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 96 meetings with 258 analysts and fund managers from 112 companies were held in 2009. In addition, the Bank's Vice-Chairman and Chief Executive; and Chief Financial Officer also made presentations and held group meetings with investors at investor forums in Hong Kong and overseas. 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, Chairmen of the Board Committees 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 and 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 Wednesday, 6 May 2009 at 3:30 pm at Hang Seng Bank Headquarters, 83 Des Voeux Road Central, 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)



# Corporate Governance and Other Information

The next Annual General Meeting of shareholders will be held on Friday, 14 May 2010, 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 2010.

## OTHER INFORMATION

The Annual and Interim Reports contain comprehensive information on business strategies and developments. Discussions and analyses of the Bank’s performance during 2009 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 2009 Financial Statements. These transactions include those that the Bank has entered into with its immediate holding company and 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 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 2009, the Bank’s share of the costs includes HK\$174 million for system development services, HK\$193 million for data processing, and HK\$111 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\$151 million and HK\$25 million respectively in 2009. 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 which management fee rebates were made. The rebate for 2009 amounted to HK\$109 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 IT services of The Hongkong and Shanghai Banking Corporation Limited (amount of IT services cost incurred for 2009: HK\$494 million) as contracts of significance for 2009.

### Disclosure of Continuing Connected Transactions in accordance with Rules 14A.45 and 14A.46 of the Listing Rules

#### Continuing Connected Transactions

- (a) On 22 June 2007, Hang Seng Life Limited (“HSL”) entered into a management services agreement (“Management Services Agreement”) for an initial term of three years with HSBC Life (International) Limited (“INHK”). Pursuant to the Management Services Agreement, INHK 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.

INHK 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.

(b) On 22 June 2007, HSLI also entered into an investment management agreement ("Investment Management Agreement") for an initial term of three years with HSBC Global Asset Management (Hong Kong) Limited (formerly known as HSBC Investments (Hong Kong) Limited) ("ISHK"), pursuant to which ISHK will continue to act as investment manager in respect of certain of HSLI's assets held from time to time to maintain business continuity of HSLI.

HSLI will pay to ISHK 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.

HSLI has become a wholly-owned subsidiary of Hang Seng Insurance Company Limited ("HSIC"), a wholly-owned subsidiary of the Bank, since September 2007. As part of the plan of the Bank to rationalise its insurance business structure, HSLI's long term insurance business has been integrated into that of HSIC. Accordingly, all rights and obligations under the agreements entered into between HSLI and the third parties have then been novated to HSIC. These agreements include, among others, the Management Services Agreement and the Investment Management Agreement (collectively "the Agreements").

INHK and ISHK, both being indirect wholly owned subsidiaries of HSBC Holdings plc ("HSBC") 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. Accordingly, the Agreements constituted continuing connected transactions for the Bank under the Listing Rules.

Details of the terms of and the annual caps under the Agreements for the years 2007, 2008 and 2009 were announced by the Bank on 22 June 2007.

Pending the renewal of the Agreements which will expire on 22 June 2010, the Bank has set the maximum value under each of the Agreements for the period from 1 January to 22 June 2010 ("2010 Part-year Cap") pursuant to the Listing Rules.

The Company has set the 2010 Part-year Cap at HK\$85 million for the Management Services Agreement and HK\$34 million for the Investment Management Agreement. The 2010 Part-year Caps have been determined by reference to the actual fees paid to INHK and ISHK under the Agreements in years 2007 and 2008, the projected fees payable under the Agreements in year 2009, HSIC's business and financial plans for year 2010 and the seasonal distribution of fees under the Agreements, to which an appropriate buffer to provide flexibility for possible changes in the level of services required under the Agreements has been added. The details of the 2010 Part-year Caps were announced by the Bank on 18 December 2009.

For the year ended 31 December 2009, the aggregate amounts paid under the Management Services Agreement and the Investment Management Agreement were HK\$119 million and HK\$51 million respectively.

In respect of the Agreements which constituted the Bank's continuing connected transactions, all the Independent Non-executive Directors of the Bank have reviewed the said transactions and confirmed that the said 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 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 said transactions:

- (1) have been approved by the respective Boards of Directors of the Bank and HSIC;
- (2) have agreements in place governing the said transactions;
- (3) have been entered into in accordance with the pricing terms as set out in the Agreements 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 said transactions.

# Corporate Governance and Other Information

## 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 2009, the Bank's total headcount was 9,342, representing a decrease by 422, or 4.3 per cent, compared with a year earlier. The total headcount comprised 1,106 executives, 3,672 officers and 4,564 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 competitiveness compared to peers.

Under appropriate circumstances, performance-related variable pay is provided as an incentive for those staff members who had chosen to join the Bank's Annual Pay Scheme under performance-based remuneration strategy. Further, senior staff with outstanding performance were also rewarded with HSBC Group shares in 2009.

In addition, 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 shares of HSBC Holdings plc after a specified period. For Sharesave 2009, 5,934 staff members had subscribed to the plan.

### 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 third bankwide Global People Survey was conducted in June 2009 as a continuous initiative to measure staff engagement level. The results were very positive as the employee engagement index was among the best in class.

Communication sessions to staff were organised to share the survey results and collect feedback for continual enhancement.

### Staff Development

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

New staff joining the Bank will participate in a comprehensive induction programme that provides them with an understanding of the Bank's history, culture, values and corporate governance. Sustainable development of staff is enabled through multiple learning channels, including instructor-led training courses, web-based learning via an intranet platform, as well as the Bank's Learning Resource Centre. Staff members are also encouraged to pursue professional or academic qualifications through the Bank's Professional Qualifications and Education Award Scheme.

On average, our staff members received six days of training in 2009.

### Recruitment And Retention

Following the financial tsunami in the second half of year 2008, the Bank had tightened the control on headcount and staff cost. In view of the gradual recovery of the economy and picking up of businesses since the third quarter of year 2009, recruitment activities have been stepped up to support business growth. Appropriate measures have been taken to ensure effective recruitment process and recruitment of the right persons.

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. Further, trainee programmes would be provided for jobs in selected functional areas in order 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

contained in the Bank's Staff Handbook. With reference to the applicable regulatory guidelines and other industry best practices, the Code sets out ethical standards and values to which all the Bank's 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 of Conduct.

### Health and Safety

The Bank implements a Safety Management System with established procedures and guidelines for adherence by its staff and contractors, which helps reduce the exposure of the Bank's staff and customers to occupational safety and health risks associated with its business activities. This Safety Management System has been audited by an external Accreditation Authority and meets the registration requirements of OHSAS 18001:2007.

The Bank maintains a Contingency Plan for Communicable Disease. This sets out the key issues to be addressed and the actions to be taken by various units in the event of the occurrence of a serious communicable disease, and the arrangement of keeping adequate stock of Tamiflu by the Bank to cater for the needs of its staff in case of an outbreak of influenza pandemic. Staff have been made aware through various communication channels of the importance of personal hygiene and health, and informed of the contingency measures to be adopted. This is to ensure that the Bank will be in a position to continue with its services to the community in the event of an outbreak of a serious communicable disease.

Lastly, to promote work life balance and foster a happy workplace culture, the Bank operates a Staff Recreation Centre at Mega Site, which serves to provide its staff with various facilities for health enhancement and leisure activities.