

Corporate Governance and Other Information

Corporate Governance Principles and Practices

Hang Seng Bank Limited (the “Bank”) 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 Corporate Governance Code 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 constantly reviews and enhances its corporate governance framework to ensure that it is in line with international and local best practices.

Board of Directors

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

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

- strategic plan and objectives;
- annual operating plans and performance targets;
- annual and interim results;
- capital plans and management;
- risk appetite statement and profile;
- internal control and risk management governance (including the risk management framework);
- significant policies such as large credit exposure policy, liquidity management policy, remuneration policy and policy on board-level conflicts of interest;
- policies, practices and disclosure on corporate governance;
- policies and practices on compliance with legal and regulatory requirements;

- appointments and oversight of senior management;
- corporate values and standards;
- corporate structure;
- effective audit functions;
- transparency in respect of the structure, operation and risk management;
- acquisitions and disposals above predetermined thresholds; and
- significant changes to balance sheet management policies.

Chairman and Chief Executive

The roles of the Chairman and Chief Executive of the Bank are separate, with a clear division of responsibilities as set out in the Board’s terms of reference. The Chairman of the Board is an Independent Non-executive Director who is responsible for the leadership and effective running of the Board. The Chairman possesses the requisite experience, competencies and personal qualities to fulfill these responsibilities.

The Chief Executive is an Executive Director who ensures implementation of the strategy and policy as established by the Board. The Chief Executive is responsible for the management and day-to-day running of the Bank’s business and operations, and leads and chairs the Executive Committee, Risk Management Committee and Asset and Liability Management Committee.

Board Composition

As at the date of this Annual Report, the Board comprises 16 Directors, of whom two are Executive Directors and 14 are Non-executive Directors (“NEDs”). Of the 14 NEDs, nine are Independent Non-executive Directors (“INEDs”). There is a strong independent element on the Board, to ensure the independence and objectivity of the Board’s decision-making process as well as the thoroughness and impartiality of the Board’s oversight of the Management.

The Board possesses, both as individual Directors and collectively, appropriate experience, competencies and personal qualities, including professionalism and integrity, to discharge its responsibilities adequately and effectively. In addition, the Board collectively has adequate knowledge and expertise relevant to each of the material

business activities that the Bank pursues and the associated risks in order to ensure effective governance and oversight.

Members of the Board, who come from a variety of different backgrounds, have a diverse range of business, banking and professional expertise. Brief biographical particulars of 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.

The Bank has maintained on its website and on the website of Hong Kong Exchanges and Clearing Limited an updated list of its Directors identifying their roles and functions and whether they are INEDs. INEDs are also identified as such in all corporate communications that disclose the names of the Bank’s Directors.

The independence of the INEDs has been assessed in accordance with the guidelines set out in Rule 3.13 of the Listing Rules. Following such assessment, the Board considers all the INEDs to be independent. Further, the Bank has also received from each of the INEDs an annual confirmation of his/her independence.

The Bank issues appointment letters to each of the NEDs, setting out the terms and conditions of their appointment, including the time commitment expected of them.

Board Process

Board meetings shall be held at least once every quarter. Additional Board meetings, or meetings of a board committee established by the Board to consider specific matters, can be convened, when necessary.

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

Other than regular Board meetings, the Chairman also meets with NEDs, including INEDs, without the presence of the Executive Directors, to facilitate an open and frank discussion among the NEDs on issues relating to the Bank.

Meeting agendas 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. Regular reports include the Bank’s financial performance, strategic plan, risk appetite statement and profile, review of internal control and risk management framework, results of stress testings, as well as reports on large credit exposures and connected lendings.

Directors make their best efforts to contribute to the formulation of strategy, policies and decision-making by attending the Board meetings in person or via telephone or video conference facilities.

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

During 2012, the important matters discussed at Board meetings included :

- financial and business performance;
- strategic plan 2012 - 2014 with update for 2013 - 2015;
- risk appetite statement and profile;
- 2012 annual operating plan and capital plan;
- capital management and internal capital adequacy assessment process;
- results of enterprise stress testing analysis on the Bank’s operating plan;
- significant policies such as large credit exposure policy, liquidity management policy, strategic risk management policy and reputational risk management policy;
- liquidity contingency plan;
- appointments of Directors and senior executives;
- pay review for 2012 and variable pay for 2011;
- review of the fees payable to Directors and Board Committee Chairmen/members of the Bank and its subsidiaries (the “Group”)

- risk management framework and internal control framework;
- strategies for general insurance manufacturing business;
- change in accounting treatment for the Bank's investment in Industrial Bank;
- shareholders' communication policy;
- terms of appointment of NEDs;
- establishment of Nomination Committee and Risk Committee;
- terms of reference of the Board and Board Committees; and
- major regulatory changes affecting the Bank.

At the Board meeting held in January 2013, the Board also reviewed the Corporate Governance Framework of the Bank which sets out the governance practices and procedures of the Board and Board Committees.

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

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

All Directors have access to the Executive Directors as and when they consider necessary. They also 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.

Appointment and Re-election of Directors

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 INEDs) will be solicited. The proposed appointments will be considered and if thought fit, approved by the Board after due deliberation and upon recommendation of the Nomination Committee. 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 ("AGM") after their appointments have become effective.

According to the policy on term of appointment of Directors adopted by the Board, term of appointment of each NED is three years except that where an NED has served on the Board for more than nine years, then his/her term of appointment is one year. In renewing the term of appointment of each NED, the Board reviews whether such NED remains qualified for his/her position.

The Bank's Articles of Association provide that one-third (or the number nearest to but not exceeding one-third) of the Directors shall retire from office every year at the Bank's AGM. Retiring Directors are eligible for re-election at AGMs of the Bank.

Responsibilities of Directors

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. In particular, through regular Board meetings and receipt of financial updates, all Directors are kept abreast of the conduct, business activities and development, as well as regulatory updates applicable to the Bank.

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

The Bank has adopted a Code for Securities Transactions by Directors on terms no less exacting than the required standards 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 of 2012.

Directors' interests in securities of the Bank and HSBC Holdings plc as at 31 December 2012 are disclosed in the Report of the Directors as set out in this Annual Report.

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.

Induction and Training for Directors

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

- the Bank's business operations in Hong Kong;
- the Bank's business operations and investments on the Mainland; and
- the Bank's controls and support functions.

Further, all Directors are provided with briefings and trainings necessary to ensure that they have a proper understanding of the Bank's operations and business and are fully aware of their responsibilities under the applicable laws, rules and regulations. Such briefings and trainings are provided at the Bank's expenses. The Bank also maintains proper records of the trainings provided to and received by its Directors.

During the year, all Directors received briefings or trainings in relation to the following topics :

- Basel III update;
- business strategy of the Bank's retail banking and wealth management;
- Competition Ordinance in Hong Kong;
- new and revised supervisory policy manuals issued by HKMA including the revised supervisory policy manual on corporate governance of authorised institutions, together with the Bank's compliance status;

- latest changes to the Listing Rules including the Corporate Governance Code, as well as the Bank's compliance status; and

- statutory disclosure obligation under the Securities and Futures Ordinance and the mechanism adopted by the Bank to ensure compliance.

In addition, members of the Audit Committee, namely, Dr Eric Li, Mr Richard Tang and Dr Marvin Cheung, also attended an intensive session on the mechanism relating to the determination of the Bank's Core Risk Appetite Measures. This provided them with more in-depth background knowledge when reviewing the Bank's risk appetite profile on a quarterly basis.

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

Directors	Training areas		
	Corporate Governance	Regulatory	Business/ Management
Executive Directors			
Ms Rose W M Lee	√	√	√
Mr Andrew H C Fung	√	√	√
NEDs			
Ms Anita Y M Fung	√	√	√
Ms Sarah C Legg	√	√	√
Dr Vincent H S Lo	√	√	√
Mrs Dorothy K Y P Sit	√	√	√
Mr Peter T S Wong	√	√	√
INEDs			
Dr Raymond K F Ch'ien	√	√	√
Dr John C C Chan	√	√	√
Dr Marvin K T Cheung	√	√	√
Ms L Y Chiang	√	√	√
Dr Fred Zulu Hu	√	√	√
Mr Jenkin Hui	√	√	√
Dr Eric K C Li	√	√	√
Mr Richard Y S Tang	√	√	√
Mr Michael W K Wu	√	√	√

Delegation by the Board Board Committees

The Board has set up five Committees, namely, the Executive Committee, Audit Committee, Risk Committee, Remuneration Committee and Nomination 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 and Nomination Committee, comprise solely of INEDs. All Committees report back to the Board on their decisions or recommendations on a regular basis.

Board	
Executive Committee	
Members:	Ms Rose W M Lee (Chairman) Mr Andrew H C Fung Mr Nixon L S Chan Mr Andrew W L Leung Mr Christopher H N Ho Mr Donald Y S Lam Mr Nai Pan Tang
Audit Committee	
Members:	Dr Eric K C Li* (Chairman) Mr Richard Y S Tang* Dr Marvin K T Cheung*
Remuneration Committee	
Members:	Dr John C C Chan* (Chairman) Mr Jenkin Hui* Dr Raymond K F Ch'ien*
Risk Committee	
Members:	Dr Marvin K T Cheung* (Chairman) Dr Eric K C Li* Dr Fred Zulu Hu*
Nomination Committee	
Members:	Dr Raymond K F Ch'ien* (Chairman) Ms Rose W M Lee Dr John C C Chan* Mr Jenkin Hui* Mr Peter T S Wong#

* INEDs

NED

Executive Committee

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 Group. 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 Manuals 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 business (including insurance) risk, pension risk, security and fraud risk, and sustainability risk, and is responsible for approval of all risk management related policies. Risk Management Committee meetings are held monthly. Minutes of the meetings of Risk Management Committee, which have been endorsed by the Chairman of the Risk Management Committee (i.e. the Chief Executive), are provided to the Executive Committee and the Risk Committee for review.

Audit Committee

The Audit Committee meets at least four times a year, with the Bank's executives including, but not limited to, the Chief Executive, Chief Financial Officer, Chief Risk Officer and Head of Audit, and representatives of Bank's external auditor. The Committee reviews, 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 relating to financial reporting. The Audit Committee is also responsible for making recommendations to the Board on the appointment, re-appointment, removal and remuneration of the Bank's external auditor. In addition, the Audit Committee has established a "Policy for the Reporting of Improprieties" to provide a secured and confidential channel through which all staff members may report incidents of improprieties in a secured and confidential manner so that the same will be timely and thoroughly investigated and appropriate actions can be taken promptly.

The Audit Committee reports to the Board following each Audit Committee meeting, drawing the Board's attention to 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.

During the year, the Audit Committee held five regular meetings and one informal meeting. The major work performed by the Committee during 2012 included:

- reviewing the Bank's financial statements for the year ended 31 December 2011 and the related documents, and the management letters and audit issues noted by the Bank's external auditor;
- reviewing the Bank's interim financial statements for the six months ended 30 June 2012 and the related documents, and the issues noted by the Bank's external auditor;
- reviewing essential matters or reports relating to financial control, internal audit, compliance and internal control, and discussing the same with the Management;
- reviewing risk-related matters including, but not limited to, the Bank's risk management framework, risk appetite statement and profile, enterprise stress testing analysis, risk dashboards, risk maps, top and emerging risks, and balance sheet management position;
- reviewing the Bank's 2012 annual operating plan and capital plan;
- reviewing the Bank's capital management and internal capital adequacy assessment process;
- reviewing the Bank's progress in implementing Basel III;
- reviewing regulatory review reports and internal audit reports, and discussing the same with the Management and Head of Audit;
- reviewing the revised accounting standards and prospective changes to accounting standards, and the impact on the Bank's financial reporting;
- reviewing the internal audit plan for 2013;
- reviewing the remuneration and engagement letters of the Bank's external auditor, and its independence and objectivity, and the effectiveness of the audit process;

- reviewing the adequacies of resources, qualifications and experience of staff of the Bank's Accounting and Financial Reporting function, Internal Audit function and Risk Management function, and their training programmes and budgets;
- reviewing the effectiveness of the Policy for the Reporting of Improprieties and the incidents reported through such channel; and
- exercising oversight over the audit and risk committees (as appropriate) of the Bank's principal subsidiaries.

The Audit Committee meets with the representatives of the Bank's external auditor and Head of Audit without the presence of the Management at least once a year. In addition, the Committee also meets with the representatives of 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 enhancements, the Audit Committee conducts an annual gap analysis as regards the effective discharge of its role and responsibilities pursuant to its terms of reference.

Risk Committee

The Risk Committee was set up in December 2012. It meets at least four times a year, with the Bank's executives including, but not limited to, the Chief Financial Officer, the Chief Risk Officer, the Chief Compliance Officer and the Head of Audit, and representatives of the Bank's external auditor. The Committee is responsible for, among other things, the Bank's high level risk related matters, risk appetite and tolerance, risks associated with proposed strategic acquisitions or disposals, risk management reports from the Management, the effectiveness of the Bank's risk management framework and the systems of internal control and compliance (other than internal financial control systems), and the appointment and removal of the Bank's Chief Risk Officer.

The Risk Committee reports to the Board following each Risk 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 Risk Committee meets with the Bank's Head of Audit without the presence of the Management at least once a year.

In order to identify areas for further enhancements, the Risk Committee will conduct an annual gap analysis as regards the effective discharge of its role and responsibilities pursuant to its terms of reference.

Remuneration Committee

The Remuneration Committee meets at least twice a year to consider and make recommendations to the Board on the policy and structure for all remuneration and fees of Directors, senior management and key personnel in order to attract, motivate and retain quality personnel. The Committee also determines the remuneration policy, and the specific remuneration packages of all Executive Directors, senior management and key personnel. In addition, it also reviews at least annually and independently of the Management, the adequacy and effectiveness of the Bank's remuneration policy and its implementation to ensure that the Bank's remuneration policy is consistent with relevant regulatory requirements and promotes effective risk management.

In determining the bank-wide remuneration policy, the Remuneration Committee will take into account the Bank's business objective, people strategy, short-term and long-term performance, business and economic environment conditions, market practices and risk management needs, in order to ensure the remuneration aligns with business and individual performances, promotes effective risk management, facilitates retention of quality personnel and is competitive in the market. The Committee may invite any Director, executive, consultant or other relevant party to provide advice in this respect.

The Remuneration Committee held two meetings in 2012. The major work performed by the Committee during the year included:

- reviewing the outcome of the review of the Bank's remuneration policy and remuneration system, and the adequacy and effectiveness of its implementation;
- reviewing the fees payable to the Chairman/Directors and Board Committee Chairmen/members of the Group and recommending the same to the Board for approval;
- determining the remuneration packages of the Executive Directors, senior management and key personnel of the Bank; and the Vice-Chairman and Chief Executive of Hang Seng Bank (China) Limited;

- reviewing the proposed variable pay for 2011 and recommending the same to the Board for approval; and
- reviewing the pay review proposal for 2012 and recommending the same to the Board for approval.

At the Remuneration Committee meeting held in February 2013, the Remuneration Committee also reviewed the report on the alignment of risk and remuneration as contained in the Bank's remuneration policy.

In order to identify areas for further enhancements, the Remuneration Committee conducts an annual gap analysis as regards the effective discharge of its role and responsibilities pursuant to its terms of reference.

Nomination Committee

The Nomination Committee was set up in March 2012 with primary objective to lead the process for Board appointments and to identify and nominate for the approval of the Board, candidates for appointment to the Board. It meets at least twice a year.

The Nomination Committee also considers, among other things, the structure, size and composition of the Board, the balance of skills, knowledge and experience on the Board leadership needs of the Bank, both executive and non-executive, the independence of INEDs, the term of appointment of NEDs, membership of Board Committees, and the time required from NEDs.

The Nomination Committee had one meeting in 2012 following its establishment in March 2012. The major work performed by the Committee during the year included:

- reviewing the Nomination Committee's terms of reference;
- reviewing the policy relating to term of appointment of NEDs;
- recommending to the Board for approval of the composition of the Bank's Risk Committee; and
- recommending to the Board for approval of the continuation of NEDs' term of appointment.

In order to identify areas for further enhancements, the Nomination Committee will conduct an annual gap analysis as regards the effective discharge of its role and responsibilities pursuant to its terms of reference.

Attendance Records

The attendance records of Board and Board Committee meetings held in 2012 are set out in the following table:

	Meetings held in 2012					
	2012 AGM	Board	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee
Number of Meetings	1	9 ^{Note 1}	13 ^{Note 2}	5	2	1
Directors						
Dr Raymond K F Ch'ien* (<i>Chairman</i>)	1/1	9/9	–	–	2/2	1/1
Mrs Margaret Leung ^{Note 3}	1/1	5/5	5/5	–	–	–
Ms Rose W M Lee ^{Note 4} (<i>Vice-Chairman and Chief Executive</i>)	1/1	6/6	8/8	–	–	1/1
Dr John C C Chan*	1/1	9/9	–	–	2/2	1/1
Dr Marvin K T Cheung*	1/1	8/9	–	5/5	–	–
Ms L Y Chiang*	1/1	7/9	–	–	–	–
Mr Andrew H C Fung	1/1	9/9	12/13	–	–	–
Ms Anita Y M Fung [#]	1/1	5/9	–	–	–	–
Dr Fred Zulu Hu*	1/1	7/9	–	–	–	–
Mr Jenkin Hui*	1/1	7/9	–	–	2/2	0/1
Ms Sarah C Legg [#]	1/1	7/9	–	–	–	–
Dr Eric K C Li*	1/1	7/9	–	5/5	–	–
Dr Vincent H S Lo [#]	1/1	8/9	–	–	–	–
Mrs Dorothy K Y P Sit [#]	1/1	9/9	–	–	–	–
Mr Richard Y S Tang*	1/1	9/9	–	5/5	–	–
Mr Peter T S Wong [#]	1/1	9/9	–	–	–	1/1
Mr Michael W K Wu*	1/1	8/9	–	–	–	–
Senior Executives						
Mr Nixon L S Chan	–	–	11/13	–	–	–
Mr Christopher H N Ho	–	–	13/13	–	–	–
Mr Donald Y S Lam	–	–	13/13	–	–	–
Mr Andrew W L Leung	–	–	12/13	–	–	–
Mr David W H Tam ^{Note 5}	–	–	1/1	–	–	–
Mr Nai Pan Tang ^{Note 6}	–	–	10/12	–	–	–
Average Attendance Rate	100%	88.9%	94.7%	100%	100%	80%

* INEDs

NEDs

Note 1 The Board held eight regular meetings and one strategic session in year 2012.

Note 2 The Executive Committee held 12 regular meetings and one ad hoc meeting in year 2012.

Note 3 Mrs Margaret Leung retired as Vice-Chairman and Chief Executive of the Bank with effect from 11 May 2012.

Note 4 Ms Rose Lee was appointed as NED of the Bank with effect from 22 March 2012 and re-designated as Vice-Chairman and Chief Executive of the Bank with effect from 11 May 2012.

Note 5 Mr David W H Tam retired and ceased to be a member of the Executive Committee with effect from 28 January 2012.

Note 6 Mr Nai Pan Tang was appointed as a member of the Executive Committee with effect from 28 January 2012.

Note 7 The Risk Committee was established on 12 December 2012 and did not hold any meeting during the year.

Remuneration of Directors, Senior Management and Key Personnel

The Bank's policy on remuneration is to maintain fair and competitive packages based on business needs and industry practice.

Remuneration of Directors

The level of fees paid to NEDs is determined by reference to factors including Directors' workload and commitments and fees paid by comparable institutions.

The following factors are considered when determining the remuneration packages of Executive Directors:

- business needs;
- general economic situation;

– 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 current and proposed Director's fees, and additional fees for Chairmen and members of the Audit Committee, Risk Committee, Remuneration Committee and Nomination Committee are set out below:

	Fees for 2012 (HK\$ '000)	Fees/Proposed fees for 2013 (HK\$ '000)
Board of Directors		
Chairman	440	590 ^{Note 9}
Vice-Chairman	Nil ^{Note 8}	NIL ^{Note 8}
Other Directors	340 ^{Note 8}	450 ^{Notes 8 and 9}
Audit Committee		
Chairman	260	260 ^{Note 10}
Members	160	160 ^{Note 10}
Risk Committee		
Chairman	N/A	260 ^{Note 10}
Members	N/A	160 ^{Note 10}
Members of both Audit Committee and Risk Committee	N/A	280 ^{Note 10}
Remuneration Committee/Nomination Committee		
Chairman	90	90
Members	60	60

^{Note 8} In line with the remuneration policy of HSBC Group, no Directors' fees are paid to those Directors who are full time employees of the Group.

^{Note 9} Having regard to the recent market trend, and the ever demanding regulatory requirements and industry best practices applicable to the Bank which have significantly expanded the responsibilities and commitments of the Chairman and the NEDs, a resolution will be proposed for approval by the Bank's shareholders at the 2013 AGM to increase the fees payable by the Bank to the Chairman and the NEDs to HK\$590,000 per annum and HK\$450,000 per annum respectively. If approved by the shareholders, the proposed increase in the fees payable to the Chairman and the NEDs will become effective retrospectively as from 1 January 2013. More information on the proposed fees to the Chairman and the NEDs is set out in the Circular in relation to the 2013 AGM to be issued in March 2013.

^{Note 10} Having regard to the latest market trend, and the workload and commitments required, the Board has approved the fees payable to the Chairman and Members of Risk Committee, and INEDs who will be members of both Audit Committee and Risk Committee, which became effective as from 1 January 2013. Further, the Board has approved to maintain the fees payable to the Chairman and Members of Audit Committee after the establishment of Risk Committee.

Information relating to the remuneration of each Director for the year ended 31 December 2012 is set out in Note 19 to the Bank's 2012 Financial Statements.

Remuneration of Senior Management and Key Personnel

There were 10 employees and three employees being classified as Senior Management^{Note 11} and Key Personnel^{Note 12} respectively during the year.

Aggregate amount of remuneration^{Note 13} of the Senior Management and Key Personnel during the year, split into fixed and variable remuneration, is set out below:

Amount (HK\$ '000)	2012 (13 employees)	
	Non-deferred	Deferred
Fixed remuneration		
Cash	34,326	–
Variable remuneration		
Cash	20,211	2,165
Shares	1,443	9,166

Note 11 Senior Management refers to those executives who are either:
 (a) members of the Executive Committee of the Bank, namely, (i) Executive Directors; (ii) senior executives of the Bank at the rank of Band 1; and if not already covered by the aforesaid, (iii) Heads of the Bank's major business lines, namely, Global Banking and Markets, Retail Banking and Wealth Management, and Corporate and Commercial Banking; (iv) Chief Risk Officer; (v) Chief Financial Officer; and (vi) Chief Operating Officer; or
 (b) Head(s) of the Bank's principal subsidiary/subsidiaries with offshore operations and with total assets representing more than 5% of the Bank's total assets.

Note 12 Key Personnel refers to those executives other than Senior Management at the rank of Band 3 or above who are engaged in trading and dealing activities which involve the assumption of material risk or the taking on of material exposures on behalf of the Group.

Note 13 Remuneration refers to all remuneration payments payable to employees during the year with reference to their tenure as Senior Management and Key Personnel.

Aggregate amount of deferred variable remuneration, split into (a) vested and paid during the year and (b) outstanding and unvested as at 31 December 2012, is set out below:

Amount (HK\$ '000)	Awarded for Performance Year 2012	Awarded for Prior Performance Years
Vested and paid out during 2012		
Cash	–	1,723
Shares	–	27,105
Outstanding and unvested as at 31 December 2012		
Cash	2,165	7,783
Shares	9,166	23,199

There was no deferred variable remuneration being reduced through performance adjustments in 2012.

Quantitative information on employees' exposure to implicit (e.g. fluctuations in the value of shares or performance units) and explicit adjustments (e.g. malus, clawbacks or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration is set out below:

	Amount (HK\$ '000)
Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit/implicit adjustments	42,313
Total amount of reductions during the year due to:	
– Ex post explicit adjustments	–
– Ex post implicit adjustments	+9,501

No Senior Management or Key Personnel has been awarded or paid guaranteed bonus, new sign-on or severance payment during the year.

Accountability and Audit Financial Reporting

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

Strategic planning cycles are generally from three to five years. The Bank's strategic plan 2013-2015 was reviewed and approved by the Board in January 2013. Progress on the implementation of the key initiatives in the strategic plan is 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 2012, the Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Bank's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Bank on a going-concern basis.

The responsibilities of the external auditor with respect to financial reporting are set out in the Independent Auditor's Report attached to the Bank's 2012 Financial Statements.

Internal Controls

System and Procedures

The Board is responsible for internal control at the Group and for reviewing its effectiveness.

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

Procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information used within the business or for publication. The procedures provide

reasonable but not absolute assurance against material errors, losses or fraud. Procedures have also been designed to ensure compliance with applicable laws, rules and regulations.

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

More detailed discussion on the policies and procedures for management of each of the major types of risk the Bank encounters are set out in the risk management section of the "Financial Review" in this Annual Report, and in Note 62 to the Bank's 2012 Financial Statements.

Annual Assessment

A review of the effectiveness of the Bank's internal control system covering all material controls, including financial, operational, compliance, and risk management controls, is conducted annually. The review at the end of 2012 was conducted with reference to the COSO (The Committee of Sponsoring Organisations of the Treadway Commission) internal control framework, which assesses the Bank's internal control system against the five elements of control environment, risk assessment, control activities, information and communication, and monitoring. The Bank has also conducted an annual review to assess 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 approach, findings, analysis and results of these annual reviews have been reported to the Audit Committee and the Board.

Framework for Disclosure of Inside Information

The Bank has put in place a robust framework for the disclosure of inside information in compliance with the Securities and Futures Ordinance. The framework sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner so as to allow the shareholders, customers, staff and other stakeholders to apprehend the latest position of the Group. The framework and its effectiveness are subject to review on a regular basis according to established procedures.

Internal Audit

The internal audit function provides independent, objective assurance to the Management and the Audit Committee over the risk management, governance and controls framework, including financial controls, to add value and to improve operations through process and control enhancement recommendations. It accomplishes its objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control, and governance processes and thereby helps the Management to achieve its own objectives within its stated risk appetite and in accordance with the Bank's ethics, values and standards. The scope of work of the internal audit function is to provide assurance as to whether the framework of risk management, control, and governance processes, as designed and represented by the Management, is adequate and functioning. Opportunities for improving management and financial control, profitability, best practice and the Bank's corporate image may be identified during audits and will be communicated to the appropriate level of the Management. The Bank's Head of Audit reports to the Chairman and the Audit Committee.

External Auditor

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

During 2012, fees paid to the Bank's external auditor for audit services amounted to HK\$12.7m, compared with HK\$13.3m in 2011. For non-audit services, the fees paid to the Bank's external auditor amounted to HK\$7.6m, compared with HK\$6.7m in 2011. In 2012,

the significant non-audit service assignments covered by these fees include the following:

Nature of service	Fees paid (HK\$m)
Other assurance services	7.1
Tax services	0.5
	<u>7.6</u>

Audit Committee

The Audit Committee assists the Board in meeting its responsibilities for ensuring effective systems of internal control and compliance relating to financial reporting, and in meeting its financial reporting obligations.

Risk Committee

The Risk Committee assists the Board in meeting its responsibilities for ensuring effective systems of risk management, internal control and compliance (other than that relating to financial reporting), and in meeting its risk governance obligations.

Communication with Shareholders Effective Communication

The Bank attaches great importance to communication with shareholders. To this end, a number of means are used to promote greater understanding and dialogue with the investment community. The Bank holds group meetings with analysts in connection with the Bank's annual and interim results. The results announcements are also broadcast live via webcast. Apart from the above, designated senior executives maintain regular dialogue with institutional investors and analysts to keep them abreast of the Bank's development, subject to compliance with the applicable laws and regulations. Including the two results announcements, over a hundred meetings with analysts and fund managers were held in 2012. 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.

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

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

The Bank's last AGM was held on Friday, 11 May 2012 at Hang Seng Bank Headquarters, 83 Des Voeux Road Central, Hong Kong. All the resolutions proposed at that meeting were approved by the shareholders by poll voting. Details of the poll results are available under the investor relations section of the Bank's website at www.hangseng.com.

The next AGM will be held on Thursday, 16 May 2013, 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 2013.

Calling an Extraordinary General Meeting

Shareholder(s) holding not less than 5 percent of the paid-up capital of the Bank may requisition an Extraordinary General Meeting of the Bank.

The requisition must (a) state the objects of the meeting, (b) be signed by the requisitioner(s) and (c) be deposited at the Bank's registered office at 83 Des Voeux Road Central, Hong Kong. It may also consist of several documents in like form, each signed by one or more requisitioner(s).

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

The Directors must proceed to convene an Extraordinary General Meeting within 21 days from the date of the

deposit of the requisition. Such meeting should be held on a day not more than 28 days after the date on which the notice convening the meeting is given.

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

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

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

Putting Forward Proposals at General Meetings

Shareholders holding not less than 2.5 percent of the paid-up capital of the Bank, or, not less than 50 shareholders each holding specified number of shares in the Bank, may:

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

For further details on the shareholder qualifications, and the procedures and timeline, in connection with the above, shareholders are kindly requested to refer to Section 115A of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

Further, a shareholder may propose a person other than a retiring Director of the Bank for election as a Director of the Bank at a general meeting. For such purpose, the shareholder must send to the Bank's registered address (for the attention of the Bank's Company Secretary) a written notice which identifies the candidate and includes a notice in writing by that candidate of his/her willingness to be so elected. Such notice must be sent within a period of not less than seven days commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days

prior to the date of such meeting. Procedures for shareholders to propose candidates for election as Directors of the Bank are also available on the website of the Bank (www.hangseng.com).

Putting Enquiries to the Board

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

Shareholders Communication Policy

The Bank has established a Shareholders Communication Policy to set out the Bank's processes to provide shareholders and the investment community with ready, equal and timely information on the Bank for them to make informed assessments of the Bank's strategy, operations and financial performance, and to encourage them to take active interest in the Bank.

Material Related Party Transactions and Connected Transactions

Material Related Party Transactions and Contracts of Significance

The Bank's material related party transactions are set out in Note 61 to the 2012 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 information technology services of, and shares an automated teller machine network with, The Hongkong and Shanghai Banking Corporation Limited, its immediate holding company. The Bank also shares information technology and certain processing services with fellow subsidiaries on a cost recovery basis. In 2012, the Bank's share of the costs included HK\$121m for system development, HK\$225m for data processing, and HK\$240m 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\$202m and HK\$63m respectively in 2012. 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 2012 amounted to HK\$75m.

These transactions were entered into by the Bank in the ordinary and usual course of business on normal commercial terms, and in relation to those which constituted connected transactions under the Listing Rules, they also complied with applicable requirements under the Listing Rules. The Bank regards its usage of the information technology services of The Hongkong and Shanghai Banking Corporation Limited (amount of information technology services cost incurred for 2012: HK\$479m) as contracts of significance for 2012.

Continuing Connected Transactions

On 22 June 2010, Hang Seng Insurance Company Limited ("HSIC"), a wholly-owned subsidiary of the Bank, entered into the following agreements :

- (a) a management services agreement ("Management Services Agreement") with HSBC Life (International) Limited ("INHK") for a term of three years commencing from 22 June 2010, pursuant to which INHK, directly or through one or more of its affiliates, would provide to HSIC certain management services.

INHK would charge HSIC 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 the HSBC Group, which has taken into account the transfer pricing guidelines of UK and the Organisation for Economic Co-operation and Development.

- (b) an investment management agreement ("Investment Management Agreement") with HSBC Global Asset Management (Hong Kong) Limited ("AMHK") for a term of three years commencing from 22 June 2010, pursuant to which AMHK would act as investment manager in respect of certain of HSIC's assets held from time to time.

HSIC would pay, on a quarterly basis, to AMHK 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.

Details of the terms of and the caps under the Management Services Agreement and the Investment Management Agreement for the period from 22 June to 31 December 2010, and for the years ended 31 December 2011 and 2012, and for the period from 1 January to 21 June 2013, were announced by the Bank on 22 June 2010.

The Directors believed that the Management Services Agreement would enable HSIC to run at a reasonably low cost structure by leveraging on the shared infrastructure and expertise of INHK. The resulting cost efficiency has contributed to increased competitiveness of HSIC's manufactured products in the market, which the Directors considered to be essential to the future business growth of HSIC.

The Investment Management Agreement was based on the commercial terms set out in the previous investment management agreement which expired on 21 June 2010 and the Directors (including the INEDs) believed that these terms should remain in place.

INHK and AMHK are both indirect wholly-owned subsidiaries of HSBC Holdings plc, the ultimate controlling shareholder of the Bank and therefore are connected persons of the Bank. Accordingly, the Management Services Agreement and the Investment Management Agreement constituted continuing connected transactions of the Bank. The Bank has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

For the year ended 31 December 2012, the aggregate amount paid under the Management Services Agreement was HK\$84m, whereas the aggregate amount paid under the Investment Management Agreement was HK\$67m.

In respect of the Management Services Agreement and the Investment Management Agreement which constituted the Bank's continuing connected transactions, all the INEDs of the Bank have reviewed the said transactions and confirmed that the said transactions have been entered into:

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms; and

- (c) in accordance with the relevant agreements governing the same on terms that are fair and reasonable and in the interests of the Bank and its shareholders as a whole.

Further, the Bank has engaged its external auditor to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions set out in the preceding paragraphs in accordance with Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Bank to The Stock Exchange of Hong Kong Limited.

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 2012, the Bank's total headcount was 9,680, representing a decrease of 154, or 1.6%, compared with a year earlier. The total headcount comprised 1,493 executives, 4,153 officers and 4,034 clerical and non-clerical staff. The reduction in headcount was mainly caused by enhancement in operational efficiency and a longer lead time in recruiting new hires due to difficulties in identifying suitable candidates in the market.

Employee Remuneration

The Remuneration Committee oversees the Bank's overall reward strategy and ensures all the reward policies are carefully considered in the context of business objective, people strategy, commercial competitiveness and regulatory guidance during their formulation. The Committee may invite any Director, executive, consultant or other relevant party to provide advice in this respect. The fundamental principles, philosophies and processes are documented in the Bank's remuneration policy.

The Bank adopts a Total Reward Approach. In determining the total remuneration for employees, the Bank will make reference to individual's responsibility, capability and risk profile of the job to ensure an appropriate balance between the fixed pay and variable pay.

Fixed pay is determined by taking into account relevant level and composition of pay in the markets in which the Bank operates. Salaries are reviewed in the context of business performance, individual performance and potential, market practice, internal relativities, risk management requirements and competitiveness compared to peers.

Bank-wide variable pay budgets are formulated in consideration of the Bank's business performance, people strategy and the risk appetite parameters, including operational risk, credit risk, funding / liquidity risk, risk adjusted return and capital strength. This helps to ensure that the variable pay pool is shaped by risk considerations and the Bank's performance is sustainable in the long-term. The ex ante risk adjustment of remuneration within the Bank is achieved in the way that the Risk Committee of the Bank will advise the Board and/or the Remuneration Committee, as appropriate, on the alignment of risk appetite with performance objectives set in the context of variable incentive and on whether any adjustments for risk need to be applied when considering performance objectives and actual performance. In addition, the overall variable pay funding proposal is refined with reference to the advice of Chief Risk Officer and Chief Financial Officer in respect of the Bank's financial position and performance against its Risk Appetite profile.

Variable pay is determined with respect to individual's performance against respective financial and non-financial goals and measures including sales quality, customer satisfaction, values and behaviours, adherence to risk and compliance and the relevant governance criteria. Under such arrangement, the performance and remuneration of control function staff is assessed according to a performance scorecard specific to the functional role they undertake which is independent of the businesses they oversee.

Variable pay consists of deferred and non-deferred components in the forms of cash and share award. The Bank adopts a progressive deferral mechanism with

higher deferral rates and different forms of deferral by reference to (a) the employee's seniority, role, responsibilities and the potential risks that their activities may create for the Bank; and (b) their total amount of variable remuneration exceeding the prescribed thresholds. The deferred award has a vesting period of three to five years and is subject to clawback under certain specific circumstances with respect to the awardee's conduct or the Bank's performance.

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

Employee Engagement

The Bank continues to build a best place to work by promoting employee engagement and by driving a diversity and inclusive culture.

The Pulse Survey was conducted quarterly in 2012 and follow up actions were taken as a continuous effort to drive business performance and a value-based culture across the Bank. The results showed that the Bank's strategies are well communicated and implemented by leaders and staff, and that our culture is moving towards one driven by the Bank's corporate values. The Bank also puts a continuous focus on improving business performance through enhancing connectivity between the businesses and engagement of the employees.

Growth and Development

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

In order to fully develop staff competence and potential, the Bank has a comprehensive induction programme that provides new staff with an understanding of the Bank's history, culture, values and corporate governance. To equip staff members to meet future challenges and

professional requirements, especially those who are involved in regulated businesses and activities, the Bank offers a wide range of training and development programmes in the areas of sales and relationship management, products, operations, compliance, credit and risk. The Bank also offers Professional Qualifications and Education Award Scheme to support staff members to pursue professional or academic qualifications. On average, our staff members received six days of training in 2012.

The Bank aims to strengthen the leadership pipeline and support the personal growth of staff by providing a broad range of leadership and management development solutions. To ensure sustainability, the Bank has strategy, measures and metrics to plan and manage succession to critical roles, and to facilitate talent feed to the succession pipeline. Line businesses and the Human Resources function are connected to accelerate the development of talents and high potential staff through a mix of on-the-job training, coaching and learning interventions.

With a strategic focus to further strengthen the leading service brand of the Bank, a series of training and on-the-job development solutions were launched in 2012 for managerial staff and front line staff of the Bank's branch network. Through these, branch network staff are reinforced with the mindset and skills to effectively lead, drive and deliver service excellence to the Bank's customers.

Recruitment and Retention

Following the uncertain economic outlook in year 2011, headcount has been closely monitored in the first half of 2012 and external recruitment was focused on front line sales and critical specialist positions justified by business needs. Active recruitment activities gradually resumed in the second half of 2012, especially for front line sales positions, experienced professionals and specialists to meet business needs and for replacement of staff turnover.

Young talents are constantly recruited and groomed through well-structured, intensive development programmes. Further, trainee programmes have been provided for jobs in selected functional areas in order to build pipeline for succession. There were also conscious efforts on retention of talents and key staff through review of career advancement opportunities and remuneration package to ensure market competitiveness.

Other Information

Organisational Structure

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

Businesses

Retail Banking and Wealth Management
Corporate and Commercial Banking
Global Banking and Markets

Functions

Audit
Communications
Company Secretarial Services
Corporate Sustainability
Financial Control
Human Resources
Legal
Marketing
Risk and Compliance
Strategic Planning and Corporate Development
Technology and Services

Business Principles and Values

The Bank has a set of well-founded business principles and corporate values guiding staff to keep the highest personal standards of integrity as well as to comply with the spirit and letter of all laws and regulations when conducting business. "Courageous Integrity" is the guiding principle whereby every employee has the courage to do the right thing without compromising the ethical standards and integrity, and behaves in a "Dependable, Open and Connected" way in everyday work. The Bank advocates the living of values by all staff, promotes their awareness and commitment, and empowers leaders and managers to drive values behaviour in the workplace.

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. Topics including but not limited to the prevention of bribery, use of information, insider dealing and personal investment dealing, personal benefits, outside directorships/employment and equal opportunities policy are covered in the Code.

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.

Avoidance of Conflicts of Interest

The Bank has set standards and established policies and procedures to manage actual or potential conflicts of interest. Stringent internal structures have been designed to ensure adequate segregation of duties and avoid conflicts of interest. Staff working in sensitive or high-risk areas are required to adhere to job-specific rules and undergo training regarding avoidance of conflicts of interest in carrying out their duties.

Health and Safety

The Bank has a demonstrated commitment to occupational health and safety ("OH&S") in the workplace with employee engagement through committees, forums and working groups in the development of an OH&S Policy and Management System. By successfully implementing the certified BS OHSAS 18001:2007-compliant Safety Management System, the Bank marks its achievement to be the first bank world-wide to conform to this internationally acclaimed best practice aiming at reducing the exposure of the Bank's staff, contractors and customers to OH&S risks associated with its business activities at premises over which it has control.

The Bank provides a range of training and activities to enhance the knowledge of its staff in occupational safety and health, fire safety, manual handling, and office safety. A number of staff have acquired Qualified First Aider status so as to offer prompt assistance to their colleagues and customers in the event of a medical emergency or accident whilst awaiting the arrival of the ambulance. Some Qualified First Aiders have also been trained to operate the Automated External Defibrillators installed in the Bank premises.

The Bank implements a Contingency Plan for Communicable Disease, which sets out the key issues to be addressed and the actions to be taken by various units in response to the occurrence of a serious communicable disease, and the keeping of adequate stock of face masks and Tamiflu to cater for the needs of its staff in case of an outbreak of influenza pandemic. Staff have been made aware through the Bank-wide intranet of the importance of personal hygiene and health, and the contingency measures to be adopted, to enable the Bank

to continue with its services to the community during an outbreak of a serious communicable disease.

The Bank operates a Staff Recreation Centre at Kowloon Bay with a variety of facilities for health enhancement and leisure activities to foster work life balance among its staff and their family members.