

Corporate Governance Report

Corporate Governance Report

Corporate Governance Practices

The missions of the Corporation are to promote:

- stability of the banking sector
- wider home ownership
- development of the local debt market.

The Corporation operates on prudent commercial principles and is committed to ensuring a high standard of corporate governance to improve the overall accountability, transparency and long-term sustainability of its operations. The Corporation's corporate governance practices are set out in its "Corporate Governance Code" (**Code**) approved by the Board. The Code is premised on the principles of fairness, transparency, accountability and responsibility to all stakeholders and has been issued to the shareholders, Directors and staff members. The Code is also available on the Corporation's website (www.hkmc.com.hk).

Monitoring of compliance with the Code starts with self-assessment by each department each year, which is to be followed by an independent review by the Chief Internal Auditor of the Control Self-assessment Forms completed by each department. A compliance report will then be submitted to the Board for review. The Board is empowered to require that appropriate action be taken in relation to any non-compliance.

In February 2016, the Chief Internal Auditor duly conducted an independent review of the Control Self-assessment Forms provided by each department in relation to the compliance with the Code for 2015. Based on the audit findings on the Corporation's internal controls systems and the completed Control Self-assessment Forms for the year, the Chief Internal Auditor was of the opinion that the Code had been complied with in all material respects.

Enhancements to the Corporate Governance Code

Maintaining a robust and sensible framework of corporate governance for the effective and prudent management of the Corporation is always a top corporate priority. To ensure that the Corporation's corporate governance practices are commensurate with the best standards, the Corporation will review the Code from time to time and will adopt any relevant development in corporate governance practices.

Shareholders

All the shares of the Corporation are beneficially owned by the Financial Secretary of Hong Kong as Controller of the Exchange Fund.

The Board

The Board is responsible for leading the Corporation and promoting its success in an accountable and effective manner. To provide strategic leadership and effective control of the Corporation, the Board meets in person at least four times a year to oversee the Corporation's business strategy and policies, budgeting and planning, organisational and financial performance, risk management, human resources as well as community relations. In order to ensure that well-balanced decisions are made by the Board, the composition of the Board includes officials from the Government, representatives from political parties, banking sector, insurance sector, relevant industry associations, the accounting and legal professions, and also the Consumer Council. Directors are encouraged to attend Board meetings to ensure that issues are properly discussed.

The Code requires that Directors are provided with appropriate information before Board meetings to enable them to be updated on the affairs of the Corporation, and make informed decisions at the meetings. During the year under review, four Board meetings were held.

The Code also requires Directors to avoid situations which may compromise (or may be seen to compromise) their personal judgement or integrity in the performance of their duties as Directors of the Corporation or lead to conflict of interests.

Directors are requested to declare their or their respective connected entities' material interests in any matter to be considered by the Board. If a Director or any of his or her connected entities has a conflict of interest in a matter to be considered by the Board, such Director will abstain from, and not be counted in the quorum in respect of, voting on such matter at the Board meeting. In respect of each financial reporting period, the Corporation will seek confirmation from Directors in respect of their and their respective connected entities' material interests in transactions, arrangements or contracts involving the Corporation or its subsidiaries or subsidiary undertakings. Material related-party transactions between the Corporation and its counterparties will be identified and disclosed in the notes to the financial statements each year in accordance with the Hong Kong Financial Reporting Standards.

As at 31 December 2015, there were 18 Directors, all of whom were duly appointed by the shareholders of the Corporation. Information about Directors is set out in the Directors' Report published in the Annual Report and also available on the Corporation's website. All Directors, other than the four Executive Directors, are non-executive and are not actively involved in the day-to-day management of the Corporation. Non-Executive Directors, however, do play an important role in bringing their independent judgement, considerable knowledge and diverse expertise to the Board's deliberations which in turn provide effective steer to Management in pursuit of the Corporation's policies. The Corporation does not remunerate its Directors.

For newly appointed Directors, the Corporation will provide an induction briefing on the business activities, strategies and objectives of the Corporation.

The term of a Non-Executive Director is one year, and Non-Executive Directors are typically appointed at an Annual General Meeting. Under the Articles of Association of the Corporation, all Non-Executive Directors will retire at the next Annual General Meeting following their appointment but are eligible for re-election.

The Corporation maintains a directors' and officers' liability insurance policy for its Directors and officers against legal proceedings and other claims arising in the course of discharge of their duties in respect of the Corporation.

Chairman and Chief Executive Officer

During 2015, the Hon. John C Tsang was the Chairman and Mr Raymond Li Ling-cheung was the Chief Executive Officer. The roles of Chairman and Chief Executive Officer were separate and not performed by the same individual, which ensured a clear division of responsibilities between the Board and the executive functions of the Corporation's Management. The Board is responsible for laying down strategic direction and business guidelines, approving financial objectives and closely monitoring the Corporation's performance on an ongoing basis. The Chief Executive Officer, who is accountable to the Board, is responsible for leading Management in implementing the Board's decisions in a proper and efficient manner. The Chief Executive Officer also ensures that adequate information relating to the Corporation's business is reported to the Board on a regular basis.

Company Secretary

The Company Secretary is accountable to the Board and her main duty is to ensure that all company secretarial procedures are followed by the Corporation and the Board. In addition, the Company Secretary also ensures that Board Papers are provided to Directors in a timely manner prior to each Board meeting. Directors have access to the advice and services of the Company Secretary with a view to ensuring that applicable laws, rules and regulations are complied with in respect of Board proceedings.

The schedule for 2015 Board meetings was provided to Directors in advance to facilitate Directors' attendance at Board meetings. The Code requires that Board Papers should generally be sent to Directors at least seven days before the relevant Board meeting so that Directors could be properly briefed before the Board meeting. Board Papers typically contain comprehensive background or explanatory information about the agenda items and include supporting documents, analyses, research findings, projections, budgets and forecasts, where appropriate. However, any Director adjudged to have a conflict of interest in an agenda item for the Board meeting will not be provided with the relevant Board Paper.

All the minutes of Board meetings and Audit Committee meetings are generally taken in sufficient detail, including the matters considered, decisions reached, concerns raised by Directors and dissenting views expressed at the meetings. All minutes of Board meetings and Audit Committee meetings are kept by the Company Secretary and made available for inspection by any Director, except where a Director has or is perceived to have a conflict of interest in any matter discussed under an agenda item, the relevant minutes or materials would be withheld from such Director.

Audit Committee

During the year under review, the Audit Committee comprised the following members:

- Mr Abraham Shek, Non-Executive Director (Chairman of the Audit Committee)
- Mr Peter Pang, Executive Director
- Mr Eddie Yue, Executive Director
- Mr Andrew Leung, Non-Executive Director
- Mr Ng Leung-sing, Non-Executive Director
- Mr Brian Stevenson, Non-Executive Director.

The Audit Committee is responsible for reviewing the Corporation's financial statements, the composition and accounting principles adopted in such statements, the results of the financial audits and the Corporation's management procedures to ensure the adequacy and effectiveness of internal controls systems. The Terms of Reference of the Audit Committee are published on the Corporation's website.

The Audit Committee holds regular meetings with Management, the Chief Internal Auditor and external auditor. The Audit Committee also meets on an ad hoc basis to consider special issues requiring its attention. The Chairman of the Audit Committee summarises the reviews conducted by the Audit Committee, and highlights any major issues in a report for submission to the Board for Directors' consideration. In 2015, the Audit Committee held two meetings.



Audit Committee Meeting

Internal Auditor

The Corporation has an Internal Audit Department which operates independently of Management and plays a major role in monitoring the internal controls systems of the Corporation. The Internal Audit Department is led by the Chief Internal Auditor who reports directly to the Chairman of the Audit Committee on all matters relating to the internal controls systems. The Chief Internal Auditor also reports to the Chief Executive Officer on the day-to-day administrative functions of the Internal Audit Department, and has authority to communicate directly with the Chairman of the Audit Committee without reference to Management.

Each year, the Audit Committee formally approves the annual Internal Audit Plan drawn up by the Chief Internal Auditor based on his independent risk assessment and other risk management issues observed by him at the regular Operational Risk Committee and the Corporate Risk Management Committee meetings. In accordance with the annual Internal Audit Plan, the Internal Audit Department adopts a risk-based audit approach in conducting its independent reviews of the Corporation's internal controls systems. After each review, the Internal Audit Department discusses the audit findings and recommendations with the relevant department heads, Senior Management and Executive Directors. Internal audit reports are submitted to the Audit Committee for review and, thereafter, to the Board for information.

Over the years, Management has adopted an active approach in considering the audit findings and recommendations made by the Chief Internal Auditor and closely monitored their implementation. In 2015, the Internal Audit Department conducted 13 reviews.

External Auditor

The Corporation's external auditor is PricewaterhouseCoopers. Detailed information in respect of the auditor's remuneration is disclosed in the Corporation's financial statements. The auditor is allowed to communicate freely with the Chief Internal Auditor and the Audit Committee. To ensure its independence with respect to the Corporation, the auditor would issue a letter, on an annual basis, to the Audit Committee to confirm its independence based on

the requirements under section 290 of the Code of Ethics for Professional Accountants of the Hong Kong Institute of Certified Public Accountants. For the purpose of the audit of the Corporation's financial statements for the year ended 31 December 2015, PricewaterhouseCoopers has confirmed its independence to the Audit Committee.

Financial Reporting

The Corporation aims to present a clear, balanced and comprehensible assessment of its performance, financial position and prospects to its stakeholders and the general public. Directors are responsible for the preparation of the financial statements, and there is a statement by the auditor regarding its reporting responsibilities in the Auditor's Report on the Financial Statements. Directors are to ensure that financial statements are prepared so as to give a true and fair view of the financial status of the Corporation. The annual and interim results of the Corporation are announced in a timely manner after the end of each relevant period.

Internal Controls

The Board has the overall responsibility for the Corporation's internal controls systems and, through the Audit Committee, conducts periodic reviews on the effectiveness and efficiency of the systems.

Various committees have been established to ensure the efficient operation and prudent risk management of the Corporation. These include the Corporate Risk Management Committee which is chaired by an Executive Director to oversee the financial and non-financial risks of the Corporation from an enterprise-wide perspective; and the Operational Risk Committee, the Credit Committee, the Transaction Approval Committee, and the Asset and Liability Committee which are management committees chaired by the Chief Executive Officer. Detailed descriptions of these five committees and the risk management framework of the Corporation are set out in the Business Overview section in the Annual Report.

Each of these committees has clear and well defined terms of reference. The internal controls systems are designed to provide reasonable assurance against material mis-

statement or loss, manage risks of failure in the operational systems and the attainment of business objectives, safeguard assets against unauthorised use, ensure the maintenance of proper accounting records for internal use and publication, and ensure compliance with applicable legislation and regulations.

Compliance Reporting

The Corporation has established a dedicated Compliance Function as part of the Legal Office for better management of regulatory and compliance risks.

The Compliance Function is led by the Chief Compliance Officer who reports to the Chief Executive Officer through the General Counsel. During 2015, the Compliance Function continued to work with the other departments of the Corporation to review their compliance practices as part of a compliance programme to update the Corporation's internal compliance practices and policies with a focus on conflict of interests, anti-corruption, anti-discrimination, competition, and personal data protection matters. The Compliance Function also prepared new compliance documentation such as the Anti-Fraud and Whistleblowing Policy, and the Compliance Manual to provide further guidance on compliance matters. To provide transactional support, the Compliance Function undertook reviews of and participated in the sign-off of key transactions. It also organised compliance-related training sessions to strengthen staff knowledge on compliance matters. An online compliance knowledge testing system was launched by the Compliance Function at the end of 2015. The test is compulsory for all staff members who will take the test in batches.

Code of Conduct

The Corporation requires the highest standards of integrity and conduct from its staff members. The requirements and the relevant legal obligations are clearly set out in a code of conduct (**Code of Conduct**) incorporated into the Staff Handbook. The Code of Conduct also sets out, in particular, provisions in regard to potential conflicts of interest which may arise between staff members and the Corporation in respect of which staff members should be aware, and other provisions designed to ensure that they carry out their work properly, ethically, impartially and free from any suggestion of improper influence.

A copy of the Code of Conduct is available on the Corporation's intranet to all staff members.

Staff members are required to give written confirmation of their compliance with the Code of Conduct on an annual basis. Based on the confirmation received from the staff members, Management was satisfied that staff members had complied with the Code of Conduct in 2015.

Communication

The Corporation attaches great importance to communications with the public. The Annual Report of the Corporation contains comprehensive information on its business strategies and developments. The Corporation's website (www.hkmc.com.hk) offers timely access to the Corporation's press releases and its other business information. The Corporation also maintains a telephone hotline to service enquiries from the public.

Corporate Social Responsibility

The Corporation is committed to fulfilling its corporate social responsibility (**CSR**). In recognition of the Corporation's contribution to the community and its commitment to CSR in the past years, the Corporation has been awarded the Caring Organisation Logo by the Hong Kong Council of Social Service since 2008 and is now in its eighth year of CSR participation. In 2015, the Corporation continued to participate in the Government's Web Accessibility Campaign which aimed at providing access support to the Corporation's website for people with disabilities such as blindness and deafness. In recognition of the Corporation's commendable performance at the campaign in meeting all the web accessibility judging criteria satisfactorily, the Corporation was awarded the Gold Award by the Office of the Government Chief Information Officer in 2015.

Conclusion

The Board was satisfied with the corporate governance practices of the Corporation during 2015. In 2016, the Corporation will continue to review its corporate governance framework and improve those practices as appropriate in the light of ongoing experience, regulatory changes, international trends and developments in order to enhance the Corporation's efficiency and effective management in pursuit of its missions.