

HSBC BANK (SINGAPORE) LIMITED (the “Bank”)
Registration Number: 201420624K

Corporate Governance Report 2016

(For the Period from 20 April 2016 to 31 March 2017)

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INTRODUCTION

HSBC Bank (Singapore) Limited (the “Bank”) was incorporated in Singapore on 14 July 2014 and is licensed by the Monetary Authority of Singapore (the “MAS”) as a qualifying full licenced bank to engage in banking business in Singapore with effect from 20 April 2016. The Bank is wholly owned by The Hongkong and Shanghai Banking Corporation Limited (the “Shareholder”).

In discharging its responsibilities, the Board has regard to the Banking Act (Cap. 19), the Banking (Corporate Governance) Regulations 2015 as amended in 2007 and 2010 (the “CG Regulations”) and the Monetary Authority of Singapore’s (“MAS”) Guidelines on Corporate Governance for Banks, Financial Holdings Companies and Direct Insurers (“CG Guidelines”) issued on 3 April 2013, as revised from time to time. Where differences exist between the above the CG Guidelines and the CG Regulations, the CG Regulations prevail.

The Bank applies and complies with the spirit and intent of the provisions of the CG Guidelines to the fullest extent possible. In areas where the Bank deviates, the rationale is explained in this Corporate Governance Report.

The disclosures in this report have been approved by the Board.

BOARD OF DIRECTORS (as at 5 June 2017)

<u>Name of Director</u>	<u>Board Membership</u>
Gordon William French	Chairman and non-executive Director
Anthony William Cripps	Chief Executive Officer and executive Director
Guy Daniel Harvey Samuel	Non-executive Director
Matthew Steven Colebrook	Non-executive Director
Kwa Kim Li	Independent and non-executive Director
Tarun Kataria	Independent and non-executive Director
Mervyn Fong Mun Ngin	Independent and non-executive Director

1. THE BOARD'S CONDUCT OF AFFAIRS

- 1.1 The Board provides entrepreneurial leadership of the Bank within a framework of prudent and effective controls which enables risks to be assessed and managed. The Board is collectively responsible for the long-term success of the Bank and delivery of sustainable value to the Shareholder. In conjunction with the Shareholder, it sets the strategy and risk appetite for the Bank and approves capital and operating plans presented by Management for the achievement of the strategic objectives set by the Shareholder while preventing conflicts of interest and balancing competing demands on the Bank.

- 1.2 The Board has the ultimate responsibility for the operations and the financial soundness of the Bank. In discharging its responsibilities, it takes into account the legitimate interests of the Shareholder, depositors and other relevant stakeholders. Directors act bona fide in the interest of the Bank, and on an informed and prudent basis, in accordance with the applicable laws, regulations and supervisory standards.
- 1.3 The key responsibilities of the Board include:
- (i) setting and overseeing the objectives of the Bank and the strategies for achieving those objectives;
 - (ii) risk governance;
 - (iii) appointment and oversight of senior management;
 - (iv) stewardship of the HSBC corporate values and standards;
 - (v) ensuring a suitable and transparent organisational and corporate structure which would include ensuring that adequate governance frameworks and systems are in place across the Bank;
 - (vi) ensuring prudent and effective audit functions;
 - (vii) ensuring an appropriate degree of transparency in respect of the structure, operation and risk management of the Bank;
 - (viii) consider sustainability issues, e.g. environmental and social factors, as part of its strategic formulation; and
 - (ix) ensuring that senior management formulates policies and processes to promote fair practices and high standards of business conduct by staff. Such policies should address any misrepresentation, in particular, making of false and misleading statements and misconduct by the staff.
- 1.4 As allowed under the CG Regulations, the Board undertakes the responsibilities of the Nominating Committee (“NC”) and Risk Management Committee (“RMC”). The MAS has exempted the Bank from forming a Remuneration Committee as the responsibilities are undertaken by the HSBC Group Remuneration Committee.
- 1.5 The Board has established an Audit Committee (“AC”), with responsibilities clearly defined in its terms of reference (“TOR”). Any changes to the AC TOR requires Board approval.
- 1.6 The Board has delegated certain authorities to the Chief Executive Officer and Chief Risk Officer and other persons, with powers of sub-delegation in relation to the management and day-to-day running of all businesses and support functions of the Bank within certain financial limits and in accordance with certain directions.

The following matters specifically require Board approval:

- (i) strategic plans, operating plans, risk appetite and performance targets for the Bank;
- (ii) the establishment of effective procedures for monitoring and control of operations including internal procedures for audit, risk and compliance;
- (iii) the recovery plans of the Bank

- (iv) the authority or the delegation of authority to approve credit, market risk limits, acquisition, disposal, investment, capital expenditure or realisation or creation of a new venture;
- (v) appointment, resignation or dismissal of the Head of Internal Audit; and
- (vi) any substantial change in the policies established from time to time by the Board for balance sheet management, including capital adequacy, liquidity, maturity structure of assets and liabilities, interest rate and exchange rate risks and asset concentration.

1.7 The Board reviews all nominations, appointments and reasons provided for each person for the resignation of:

- (i) each Director;
- (ii) each member of each Board Committee;
- (iii) the Chief Executive Officer and Deputy Chief Executive Officer;
- (iv) the Chief Finance Officer; and
- (v) the Chief Risk Officer.

Board Meetings and Attendance

1.8 The Board meets at least four times a year to review business performance and key activities, as well as to provide policies. Additional Board meetings, or meetings of a Committee of the Board established by the Board to consider specific items, are convened when necessary. Copies of all Board and Board Committee meeting minutes for the last meeting are distributed to the Directors at each Board meeting.

1.9 The Constitution of the Bank allows the Directors to participate in a meeting of the Board or a committee of the Board through the medium of telephone or video conference or similar communications equipment by means of which all persons participating in the meeting can hear each other.

1.10 The number of meetings of the Board and Audit Committee held in 2016 and the attendance of the Directors at the meetings is tabulated below.

Number of meetings of the Board and board committee held in 2016 and attendance

	Board meetings held in 2016	AC meetings held in 2016
Number of meetings	4	3
Directors		
Mr Gordon William French	4/4	-
Mr Guy Daniel Harvey Samuel ¹	4/4	3/3 ²
Mr Mervyn Fong Mun Ngin	4/4	3/3
Ms Kwa Kim Li	4/4	3/3
Mr Tarun Kataria	4/4	3/3
Mr Anthony William Cripps	3/4	-
Mr Matthew Steven Colebrook	3/4	2/3 ²

¹ Stepped down as CEO on 31 March 2017 due to retirement from HSBC Group

² By invitation

Director Induction and Continuous Training

- 1.11 Executive Directors have access to the Bank's internal training programmes. Incoming Directors receive a comprehensive and tailored induction on joining the Board which include his/her duties as a Director, and an orientation program to ensure that they are familiar with the Bank's business and governance practices by the CEO and senior management. In addition, all Directors (including Independent Directors) undergo mandatory training/awareness sessions on topics which cover Global Standards, HSBC Values, Financial Crime Compliance and Sanctions, Bribery, Corruption and Anti Money-Laundering, and treating customers fairly.
- 1.12 A formal letter of appointment and a Director's Memorandum which sets out the duties and obligations of Directors, the Corporate Governance Code HSBC Group Companies ("HSBC Code") which covers the HSBC Group internal policies on corporate governance activities, as well as relevant rules and regulations such as those relating to the Banking Act, CG Regulations and CG Guidelines are provided to every new Director.
- 1.13 The Bank is responsible for arranging and funding the training of Directors. Directors may attend seminars and training courses that will assist them in executing their obligations and responsibilities.
- 1.14 In 2016, the Independent Directors were provided with briefings on HSBC's fight against financial crime that included presentations on the Client Due Diligence process, Client Screening, Sanctions Risk Management as well as the Transaction Monitoring process. The Independent Directors also visited the Global Service Centre in Guangzhou China to be introduced to the Level 1 processes covering Transaction Monitoring adjudication.
- 1.15 In 2016, the Chairman of the Audit Committee attended the HSBC non-executive Director's Forum in London, together with the Audit and Risk Committee's Chairs Forum.
- 1.16 The Board has concluded in general that Directors received appropriate education and orientation on the business and its key issues. Additional suggestions on further topics of training or deep-dives into any particular area are made from time to time at Board meetings and are duly followed up.

Bank Culture and Conduct

- 1.17 As a wholly-owned subsidiary within the HSBC Group, the Bank has adopted the HSBC Values, which are aimed at promoting and maintaining high levels of professional conduct of the business. These values emphasise, among others, integrity, honesty and proper conduct at all times, both with respect to internal dealings and external transactions. All employees of the Bank are required to undergo training on the HSBC Values and such values are inculcated throughout the Bank through the performance management

system, where employees are assessed not only on what they have done, but whether their behavior was aligned to the Values.

- 1.18 A Conduct maturity assessment based on 15 Conduct Outcomes which are grouped under 5 key pillars identified by the Group was performed during the year. The 5 key pillars of conduct are:
- (i) Strategy and Business Models
 - (ii) Culture and Behaviours
 - (iii) Customer
 - (iv) Markets
 - (v) Governance and Oversight
- 1.19 The Conduct assessment is a self-assessment to determine the maturity level of the Bank's conduct and whether it meets, exceeds or falls short of the expected standards. In addition to the self-assessment maturity ratings, supporting evidence must be provided. This process focusses on improving customer experience and on the Bank's obligations to preserve market integrity.
- 1.20 The Bank has clear guidelines for assessing and handling complaints. The assessment outcome for each complaint is also properly documented. Management has monthly forums to review and report on customer complaints. Material complaints are escalated to the Board.

2. BOARD COMPOSITION AND GUIDANCE

- 2.1 The Board is of sufficient size to discharge its responsibilities. It comprises a balance of executive, non-executive and Independent Directors. No individual or small group of individuals dominates the Board's decision-making. The Bank endeavors to maintain a strong and independent element on the Board with Independent Directors making up at least one-third of the Board.
- 2.2 In accordance with the CG Regulations 9(1)(a) and 9(2), at least one-third of the Board are Singapore citizens or permanent residents. The majority of Directors are independent from management and business relationships with the Bank and at least one-third of the Board are Independent Directors. Please refer to paragraph 4.5 - 4.14 for the assessment of their independence.
- 2.3 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. The Board collectively has adequate knowledge and expertise relevant to each of the material business activities that the Bank pursues (or intends to pursue) and the associated risks in order to ensure effective governance and oversight.
- 2.4 The Bank is committed to meritocracy in the Boardroom, which requires a diverse and inclusive culture where Directors believe that their views are

heard, their concerns are attended to and they serve in an environment where bias, discrimination and harassment on any matter are not tolerated. Directors commit sufficient time and effort and contribute actively to the work of the Board in order to discharge their responsibilities.

- 2.5 Non-executive Directors bring an external perspective, constructively challenge and help develop proposals on strategy, scrutinise the performance of Management in meeting agreed goals and objectives, and monitor the risk profile and the reporting of performance. To facilitate a more effective check on Management, non-executive Directors meet at least once a year without the presence of Management.

3. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

- 3.1 The role of the Chairman and Chief Executive Officer (“CEO”) is separated, which is consistent with the principle of instituting an appropriate balance of power and authority.
- 3.2 The Chairman’s responsibilities, to name a few, include leading the Board in the overall stewardship of the Bank and reporting thereon to the Shareholder and other key stakeholders; ensuring the effectiveness of Board meetings including setting the Board agenda; ensuring the timely flow of high-quality supporting information to the Board, balancing the allocation of time between strategic discussions, performance, value creation and accountability; and risk review, regulatory and corporate governance matters.
- 3.3 The CEO is responsible for ensuring implementation of the strategy and policy as established by the Board; and managing the day-to-day running of the business.
- 3.4 The Chairman is not an executive director nor is he a member of the immediate family of the CEO of the Bank.
- 3.5 Although the Chairman is not an Independent Director, the Board is of the view that a lead Independent Director is not required because the Bank is a wholly-owned subsidiary and the Chairman is a nominee of the Shareholder.

4. BOARD MEMBERSHIP

- 4.1 As allowed under CG Regulation 11(2), the Board performs all the functions of the Nominating Committee (“NC”).

Nomination or Appointment and Re-appointment of Directors

- 4.2 The Board has identified the skills required of Directors and developed a skills matrix for the Board. The criteria applied in identifying a candidate or reviewing a nomination includes, inter alia (i) that the appointment will not result in a non-compliance with the requirements for Board composition under the Regulations; and (ii) the candidate or nominee is a fit and proper person for the office and is qualified for the office, taking into account the

candidate's or nominee's track record, age, experience, capabilities, skills and such other relevant factors as may be determined by the Board. The Independent Directors were appointed taking into account the required skills. In recommending the appointment and re-appointment of executive and non-executive Directors to the Board, the Board seeks to ensure that these Directors represent a broad range of business and support functions to facilitate a diversity of views, skills and experience on the Board.

- 4.3 The appointment of the Directors requires the endorsement of the Chief Executive Officer of the Shareholder. An information paper is presented to the HBAP Board for the purposes of noting any board appointments to the Bank.
- 4.4 All directors are subject to re-election at every Annual General Meeting. In determining the re-election of Directors, the Board reviews whether each Director remains fit and proper, and qualified for his/her post. It is expected that non-executive Directors will serve two three-year terms and subject to rigorous review, may serve an additional three-year term at the invitation of the Board. The Board also reviews the reasons provided by each Director and key appointment holder for their resignations.

Determination of Independence

- 4.5 The Board determines the independence of a Director based on the criteria set out in the CG Regulations. On an annual basis, each Director is assessed on their independence and on whether they are fit and proper, and qualified, for the office.
- 4.6 There are no Independent Directors who have served for more than a continuous period of nine years on the Board.

Independence of Directors

- 4.7 Mr Mervyn Fong is independent from business and management relationships with the Bank and is independent from the Shareholder. He is not currently employed by any HSBC companies and has no direct family members who are employed by or have business relationships with the Bank.
- 4.8 Ms Kwa Kim Li is independent from business and management relationships with the Bank and is independent from the Shareholder. She is not employed by any HSBC companies and has no direct family members who are employed by or have business relationships with the Bank. Although she is a director of Mapletree Commercial Trust (a customer of the Shareholder), the Board has assessed that there is no conflict of interest given that the business focus is different from the Bank. Mapletree Commercial Trust is also the owner of one of the premises occupied by the Shareholder. The Shareholder recharges the rental on the space occupied by the Bank to the Bank based on the Group's transfer pricing policies. Given this arrangement, the Board has assessed that there is no direct business relationship between Mapletree Commercial Trust and the Bank.

- 4.9 Mr Tarun Kataria is independent from business and management relationships with the Bank and is independent from the Shareholder. He is not employed by any HSBC companies and has no direct family members who are employed by or have business relationships with the Bank. Although he is a director of Mapletree Logistics Trust (a customer of the Shareholder), the Board has assessed that there is no conflict of interest given that the business focus is different from the Bank.
- 4.10 Mr Gordon William French is currently the Head of Global Banking and Markets, The Hongkong and Shanghai Banking Corporation Limited, Hong Kong. He is not involved in the day-to-day operations of the Bank and has no approval or delegated authority to make management decisions. He is well positioned to provide overall stewardship of the business and reporting thereon to the Shareholder and other key stakeholders; and ensuring the effectiveness of Board meetings. As a Group General Manager of HSBC, he is accustomed to execute actions that are stipulated as part of, or as a consequence of, the HSBC Group strategy and in particular that which relates to the Global Banking and Markets business in Asia Pacific as the Head. He does not receive compensation other than that as an employee of the Shareholder. He is deemed independent from management and business relationships with the Bank, but is not independent of the Shareholder. None of his immediate family members are employed by or have a relationship with the Bank.
- 4.11 Mr Matthew Steven Colebrook is currently the Regional Head of Retail Banking and Wealth Management, Middle East & North Africa, HSBC Bank Middle East Limited. Immediately prior to this appointment, he was an executive Director of the Bank and was closely involved in the day-to-day running of the business. He is not independent from management and business relationships and is not independent of the Shareholder.
- 4.12 Mr Guy Daniel Harvey-Samuel is currently a non-executive director. He recently retired as CEO of the Bank on 31 March 2017. He is not independent from management and business relationships and is not independent from the Shareholder.
- 4.13 Mr Anthony William Cripps is currently the CEO of the Bank. He is not independent from management and business relationships and is not independent of the Shareholder.
- 4.14 With three Independent Directors, namely Mr Mervyn Fong Mun Ngin, Ms Kwa Kim Li and Mr Tarun Kataria, the Bank has satisfied the requirement under the CG Regulations that where a substantial shareholder holds 50% or more of the share capital of the voting power in a bank incorporated in Singapore, at least one-third of Directors must be independent. Together with Mr Gordon William French, the Bank has satisfied the requirement under the CG Regulations that a majority must be independent from management and business relationships.

Directors' Time Commitment

- 4.15 Directors commit sufficient time and effort and to contribute actively to the work of the Board in order to discharge their responsibilities. Directors who are HSBC Group employees are also subject to HSBC Group requirements on outside directorships. The HSBC Code requires all directors to allocate sufficient time to discharge their responsibilities to the Bank effectively, and to avoid conflicts of interest. To avoid conflicts of interest, all Directors are required to obtain pre-clearance of any external appointments from the Chairman.
- 4.16 The Board has also established a limit on listed companies' directorships. Generally, a Director who has full-time employment in any organisation shall have appointments in no more than three listed companies, while directors who do not have any full-time employment shall have appointments in no more than six listed companies.
- 4.17 As part of the appointment process, the Company Secretary will obtain confirmations from each prospective Director that he / she is able to commit sufficient time and effort to fulfill their responsibilities effectively.

Information on Directors

- 4.18 **Mr Gordon William French**
Chairman and non-executive Director

Mr Gordon William French was first appointed as Chairman and non-executive Director to the Board on 20 April 2016. He is currently the Head of Global Banking and Markets, The Hongkong and Shanghai Banking Corporation Limited, Hong Kong.

He joined HSBC in 1988, entering the Futures Division of Wardley Australia where he spent eight years in various roles culminating in Director and Head of Exchange Traded Derivatives.

In 1995, Mr French relocated to Singapore to run HSBC's Asia-Pacific Futures business. He transferred to London in 2001 to take up the post of Global Head of Futures. In January 2003, he took on the additional responsibilities of Managing Director and Head of Rates Sales Group in Europe and Head of Hedge Fund Sales for Treasury and Capital Markets.

In July 2004, Mr French was appointed Co-Head of Institutional Sales, Europe, Global Markets, including the additional responsibility of oversight and management of the Credit and Emerging Markets sales teams.

In 2005, Mr Gordon French was Head of Sales and Regional Treasury Management, Global Markets Asia-Pacific. This role included responsibility for managing the 19 Global Markets dealing rooms in the region along with supervision of sales management and the continued development of the distribution platform across Asia.

Academic and Professional Qualifications

1. University of Melbourne Australia (Bachelor of Commerce)
2. Hong Kong Securities Institute - HKSI Practising Certificate (Securities)

Directorship

- Present
 - Nil
- Other principal commitments
 - The Hongkong and Shanghai Banking Corporation Limited (Group General Manager, Head of Global Banking and Markets, Asia Pacific)
- Past directorships in listed companies held over preceding 3 years
 - Nil

4.19

Mr Anthony William Cripps

Chief Executive Officer and Executive Director

Mr Anthony William Cripps was first appointed to the Board as non-executive Director on 20 April 2016. He was appointed in his current role as Chief Executive Officer on 1 April 2017.

Mr Cripps has worked in the banking industry for more than 30 years, with management roles in institutional banking, treasury, trading and sales businesses, transaction banking, information technology and operations.

He first joined HSBC in 1986 as a floor trader for the Sydney Futures Exchange and went on to manage Australia's futures business before being appointed Head of Foreign Exchange and Rates Strategy for HSBC Asia Pacific. From 2000 to 2006, he was based in Hong Kong as Head of e-Commerce for HSBC Asia Pacific and then in London as Head of e-Commerce, Global Banking and Markets for the HSBC Group. In 2006, he returned to Australia as Head of Global Markets, subsequently taking up the expanded role of Head of Global Banking and Markets. Prior to his current role, he was the CEO of HSBC Australia from 2013. Under his leadership, the bank experienced a period of significant growth. Prior to this, he was President and Chief Executive Officer of HSBC Philippines between 2010 and 2012, where he also served as Chairman, HSBC Savings Bank and HSBC Insurance Brokers, Inc., Chairman and Trustee, HSBC Retirement Trust Fund, Inc. and Director of OCLP Holdings, Inc.

Academic and Professional Qualifications

1. Sydney University (Economics)
2. London Business School of Economics (Published Research paper – The Refutation of Random Market Theory)
3. NSW University (Psychology Lecturer)
(Guest Lecturer of Australian Graduate School of Management)

Directorship

- Present
 - HSBC Bank Australia Limited, Non-executive Director
 - HSBC Institutional Trust Services (Singapore) Limited, Chairman and Director
 - HSBC Trustee (Singapore) Limited, Chairman and Director
 - HSBC Insurance (Singapore) Pte. Limited, Chairman and Director
 - HSBC Global Asset Management (Singapore) Limited, Director
 - HSBC Securities (Singapore) Pte Limited, Chairman Director
 - HSBC (Singapore) Nominees Pte Ltd, Chairman and Director
 - The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch, Chief Executive Officer
 - The Hongkong and Shanghai Banking Corporation Limited, Executive Committee Member
 - The Association of Banks in Singapore, Council Member
- Other principal commitments
 - The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch (Group General Manager, Chief Executive Officer)
- Past directorships in listed companies held over preceding 3 years
 - Nil

4.20 **Mr Guy Daniel Harvey Samuel** Non-executive Director

Mr Guy Daniel Harvey Samuel was first appointed to the Board as Executive Director and Chief Executive Officer on 19 April 2016. He stepped down as Executive Director and Chief Executive Officer on 31 March 2017.

Mr Guy Harvey Samuel is a member of the Advisory Board of the National Youth Achievement Award Council and sits on the National Arts Council Advisory Board (Chairman of the Audit Committee), the Jurong Town Corporation (“JTC”) Board, Surbana Jurong Private Limited Board and the National Parks Board.

Guy was the Group General Manager, Chief Executive Officer of Singapore, The Hongkong and Shanghai Banking Corporation Limited (HBAP) until his retirement on 31 March 2017. He was also a member of HBAP’s Executive Committee and had direct responsibility for all HSBC operations based in Singapore. In his previous role as Group General Manager and Head of International, Asia Pacific based in Hong Kong, Guy was responsible for 12 countries in the Asia Pacific Region.

Guy joined HSBC in 1978. He has worked in 12 different countries across the world. Guy’s various postings have seen him take on senior management roles in Australia, the United Kingdom, Malaysia, Singapore and Hong Kong and he has spent a considerable part of his career performing roles in Global Markets, Retail Banking and Wholesale Banking.

Academic and Professional Qualifications

1. Associates of the Chartered Institute of Bankers (Accountancy Law Relating to Banking Services Monetary Economics Nature of Management)

Directorship

- Present
 - Subana Jurong Private Limited, Independent Director
 - National Arts Council, Singapore, Board Member and Chairman of Audit Committee
 - National Youth Achievement Award Singapore, Advisory Board Member
 - Jurong Town Corporation, Member of Board, Audit and Risk Committee
 - National Parks Board, Member of Board and Audit Committee
- Other principal commitments
 - Nil
- Past directorships in listed companies held over preceding 3 years
 - Nil

4.21 **Mr Mervyn Fong Mun Ngin** Independent Director

Mr Mervyn Fong Mun Ngin was first appointed to the Board as an Independent and non-executive Director on 20 April 2016. He is also a Member of the Audit Committee.

He is the Managing Director of ACI Singapore-The Financial Markets Association since 2009. His other appointments include (i) Council Member of ACI - The Financial Markets Association; (ii) Member, ACI Board of Education; and (iii) Vice Chairman, TRAC Board of Finance, Methodist Church in Singapore.

He first joined Samuel Montagu & Co Limited in 1982 as Capital Markets manager. When Samuel Montagu & Co Limited was acquired by HSBC Singapore in 1998, he held various positions in HSBC Singapore and eventually became the Head of Treasury & Capital Markets/Treasurer Singapore in 2004. From 2004-2008, he was the Deputy CEO of HSBC Indonesia. He was also Chairman of the Singapore Investment Banking Association.

Academic and Professional Qualifications

1. National University of Singapore, MBA
2. University of Birmingham, UK, Bachelor of Commerce (Honours)

Directorship

- Present
 - Nil

- Other principal commitments
 - ACI Singapore-The Financial Markets Association, Managing Director
 - Council Member of ACI - The Financial Markets Association
 - ACI Board of Education, Member
 - TRAC Board of Finance, Methodist Church in Singapore, Vice Chairman
- Past directorships in listed companies held over preceding 3 years
 - Nil

4.22 **Ms Kwa Kim Li**
Independent Director

Ms Kwa Kim Li was first appointed to the Board as an Independent and non-executive Director on 20 April 2016. She is also a Member of the Audit Committee.

She is currently the Managing Partner of Lee and Lee, Advocates and Solicitors.

Ms Kwa has been in active legal practice with the Firm for over 35 years, and her practice spans various aspects of law. Although her pet area of practice is real estate, Ms Kwa also advises on loans, trusts, wills, probates, joint ventures and cross border transactions.

Ms Kwa holds various positions outside her legal practice, including directorships in Mapletree Commercial Trust, London-listed Laura Ashley PLC, and Corus group of hotels in UK.

In addition, she sits on the Boards of Jurong Town Corporation, National University of Health System, and Singapore Chinese Girls' School. She is also Advisor to the Real Estate Developers Association (REDAS) and sits on the Board of Trustees of the Singapore Cardiac Society.

Ms Kwa was, until recently, the Non-Executive Director of Sentosa Development Corporation and Board of Governors of Lee Kuan Yew School of Public Policy.

Ms Kwa was awarded the Ministry of Education "Service to Education" award in 2014 and the Ministry of Health 5 years long service award in 2016.

Academic and Professional Qualifications

1. National University of Singapore, LLB (Honours)
2. Member of the Singapore Bar

Directorship

- Present
 - Corus Hotels Ltd, UK, Director
 - Laura Ashley PLC, UK, Director
 - Mapletree Commercial Trust Management Ltd, Director
 - National University Health System Pte Ltd, Director

- Jurong Town Corporation, Director
- Other principal commitments
 - Managing Partner of Lee and Lee, Advocates and Solicitors.
- Past directorships in listed companies held over preceding 3 years
 - Nil

4.23 **Mr Tarun Kataria**
Independent Director

Mr Tarun Kataria was first appointed to the Board as an Independent and non-executive Director on 20 April 2016. He is also a Member of the Audit Committee.

He is the Executive Advisor of Graymatics - SG Pte. Ltd.. He is also the Independent Director of Poddar Housing and Development Ltd, India; Global Moats Fund, Mauritius; Mapletree Logistics Trust Ltd, Singapore (also Member of Nominating and Remuneration Committee); Westlife Development Ltd, India (also Chairman of Risk Management Committee); Sterlite Infra Ventures Ltd, India (also Chairman of Audit Committee), BondLinc Private Limited (also Chairman of Audit Committee).

Mr Kataria was until recently Advisor to Religare Capital Markets and, between 2010 and 2013, their CEO, India. Prior to joining Religare Capital Markets, Mr Kataria held various senior positions within HSBC group which included the roles of Managing Director and Head of Global Banking and Markets with HSBC India, Vice-Chairman of HSBC Securities and Capital Markets India Pvt. Limited, Non-Executive Director of HSBC InvestDirect Limited and Managing Director, Head of Institutional Sales, HSBC Global Markets.

Academic and Professional Qualifications

1. The Wharton School, University of Pennsylvania, MBA (Finance)
2. Institute of Chartered Accountants, India

Directorship

- Present
 - Mapletree Logistics Trust Ltd, Director and Member of Nominating and Remuneration Committee
 - Westlife Development Ltd, India, Independent Director and Chairman of Risk Management Committee
 - Poddar Housing and Development Ltd, India, Independent Director
 - Global Moats Fund, Mauritius, Independent Director
 - Sterlite Investment Managers Limited, India, Independent Director, Chairman of Audit Committee, Investment Committee and IPO Committee, Member of Nominating and Remuneration Committee
- Other principal commitments
 - Graymatics - SG Pte. Ltd., Executive Advisor

- Past directorships in listed companies held over preceding 3 years
 - Nil

4.24 **Mr Matthew Steven Colebrook**

Non-executive Director

Mr Matthew Steven Colebrook was first appointed as Executive Director on 14 July 2014 until he ceased his role as Head, Retail Banking and Wealth Management (“RBWM”) Singapore on 16 September 2016.

He became the Regional Head of RBWM Middle East, North Africa and Turkey in September 2016. He has been with the HSBC Group for about 30 years. Prior to moving to the UAE, Matthew held senior executive roles in the UK, USA and Asia Pacific including Group Head of Contact Centres, UK Head of Direct Banking, Chief Executive Officer of First Direct and most recently, Head of RBWM Singapore.

Academic and Professional Qualifications

1. Stanford Graduate School of Business, California USA, MSc (Management)
2. IFS School of Finance, UK
3. Financial Services & Banking Certificate, BSc (Hons)

Directorship

- Present
 - Nil
- Other principal commitments
 - HSBC Bank Middle East Limited, Regional Head of RBWM, Middle East, North Africa and Turkey
- Past directorships in listed companies held over preceding 3 years
 - Nil

5. BOARD PERFORMANCE

- 5.1 The Board undertook an inaugural assessment of its effectiveness. The Company Secretary facilitated the evaluation. As this is a relatively new Board, processes will be developed to address the results of the evaluation. Policies exist whereby if the Board is deliberating upon any matter that involves a member, including his/her performance, that member would recuse himself/herself from the discussions to avoid conflict of interests.
- 5.2 Under the HSBC Code, all Directors are required to be mindful of their individual performance as Directors and of the collective performance of the Board and make recommendations to the Chairman on areas in which these may be improved.

6. ACCESS TO INFORMATION

6.1 Directors have unrestricted access to information and Management. Directors are entitled to request from Management and be provided with such additional information as needed to make informed decisions. Management has an obligation to supply the Board with complete, adequate information in a timely manner. Information provided includes board papers and related materials, background or explanatory information relating to matters to be brought before the Board, and copies of budgets, forecasts and internal financial statements, with material variances between projections and actuals. Information provided on an ongoing basis at board meetings includes financial, business, risk, operational, human resources and regulatory updates. Senior executives who can provide additional information or provide clarifications to questions raised are usually present at the meeting during discussion on such matters.

Company Secretary's Duties

6.2 Directors have separate and unrestricted access to the Company Secretary. The Company Secretary attends all Board, Audit Committee and Management Executive Committee ("EXCO") meetings and prepares minutes of those proceedings. She is responsible for (i) ensuring that board procedures are followed and that applicable rules and regulations are complied with; (ii) assisting the Chairman to prepare the agendas of all Board and Board committee meetings; (iii) facilitating good information flows within the Board, the Audit Committee and the EXCO; (iv) facilitating the annual process of the evaluation of Director's independence and qualification for office; (v) advising the Board on governance matters; (vi) facilitating the orientation of non-executive Directors and assisting with Directors professional development as required; (vii) maintaining minutes of all Board meetings and records of all Directors' resolutions; (viii) facilitating the Board's annual performance evaluation; (ix) reminding and facilitating the disclosure by the Directors of theirs' and their related party interests; (x) preparation of the Corporate Governance Report; (xi) acting as a channel of communication between the Audit Committee and the audit committee of the Shareholder; (xii) acting as a channel of information between the Bank and the Shareholder by reporting on material Board developments to the company secretary of the Shareholder; (xiii) facilitating the process of enhanced due diligence on Independent Directors.

6.3 The appointment and removal of the Company Secretary is a matter to be considered by the Board as a whole.

6.4 Copies of all Board and Board Committee minutes are distributed to Directors with the papers at every Board meeting. These are also available to Directors at all times via the Company Secretary.

6.5 Directors, either individually or as a group, in furtherance of their duties, may appoint, employ or retain such professional advisors as they may consider appropriate. Any such appointment shall be made through the Company

Secretary, who shall be responsible for the contractual arrangements and payment of fees by the Bank on behalf of the Board.

7. REMUNERATION MATTERS

- 7.1 The Bank has an exemption from the MAS on the requirement to set up a Remuneration Committee pursuant to Regulation 39(1) of the CG Regulations on the basis that the responsibility of the Remuneration Committee will be undertaken by the HSBC Group Remuneration Committee.

8. LEVEL AND MIX OF REMUNERATION

- 8.1 Remuneration is aligned to the HSBC Group's remuneration policy and practices which promote sound and effective risk management and support our business objectives.
- 8.2 Our remuneration strategy is designed to reward competitively the achievement of long-term sustainable performance and attract and motivate the very best people who are committed to maintaining a long-term career while performing their role in the long-term interests of our stakeholders.
- 8.3 Total compensation (fixed pay and variable pay) is the key focus of our remuneration framework, with variable pay (namely annual incentive and the value of long term incentives) differentiated by performance and adherence to HSBC values.
- 8.4 Our remuneration strategy is delivered through HSBC's reward package, consisting of five key elements:

Key elements	Purpose
Fixed pay	<ul style="list-style-type: none"> Attract and retain employees by paying market competitive pay for the roles, skills and experience required for the business This may include salary, fixed pay allowance, cash in lieu of pension and other cash allowances in accordance with local market practices These payments are fixed and do not vary with performance
Benefits	<ul style="list-style-type: none"> Ensure market competitiveness and provide benefits in accordance with local market practices This may include, but not limited to, the provision of pensions, medical insurance, life insurance, health assessment and relocation allowances
Annual Incentives	<ul style="list-style-type: none"> Drive and reward performance based on annual financial and non-financial measures consistent with the medium to long-term strategy, shareholder interests and adherence to HSBC values Awards vary with performance achievement and we have the discretion to assess the extent to which

	<p>performance has been achieved</p> <ul style="list-style-type: none"> • Awards can be in the form of cash and/or shares. A portion of the annual incentive award may be deferred and vests over a period of three years, five years or seven years. For purposes of transparency, the seven year deferral only applies to Group Senior Managers as identified by the PRA Remuneration Rules.
<p>Long-term incentive awards (Group Policy)</p> <p>No employee of this Bank is eligible for this award.</p>	<ul style="list-style-type: none"> • Incentivize sustainable long-term performance through the use of both pre- and post-grant measurement measures • Awards are subject to malus and claw back and we have the discretion to assess the extent to which performance has been achieved • Awards will be in shares and subject to a three year performance period. At the end of the performance period, the awards that vest will be dependent on the outcome of the performance condition. The first vesting will be in five equal annual installments with the first vesting occurring on the third anniversary of the grant date and the final vesting occurring on the seventh anniversary of the grant.
<p>Shareholding requirement</p>	<ul style="list-style-type: none"> • Align with shareholders' interests through a shareholding requirement during their employment with HSBC • All members of the senior management team of the Group are subject to this requirement

8.5 Under our remuneration framework, remuneration decisions are made based on a combination of business results, performance against objectives set out in performance scorecards, general individual performance of the role and adherence to the HSBC values, business principles, Group risk-related policies and procedures and Global Standards, and local market position and practice.

8.6 At the end of each performance year, business results and performance against scorecard objectives, including risk objectives, form the basis of remuneration decisions. This ensures risk management is embedded and forms an integral part of all our activities.

8.7 The performance and remuneration of individuals in control functions is assessed according to a balance scorecard of objectives specific to the functional role they undertake, to ensure their remuneration is determined independently from the performance of the business areas they control.

8.8 Alignment of risk and remuneration is achieved through the following measures:

- (i) Individual performance is assessed with reference to clear and relevant objectives set within a performance scorecard framework. All employees are required to have risk and compliance measures in their

performance scorecards, which ensure that their individual remuneration has been appropriately assessed with regard to risk.

- (ii) Fines and penalties are automatically included in the Group Remuneration Committee's definition of profit. Performance against metrics in Risk Appetite Statement is taken into consideration in determining Group Variable Pay pool.
- (iii) For our most senior employees, a portion of variable pay awards is deferred into HSBC shares and/or other instruments to tie recipients to the future performance of the Group and business units.
- (iv) Malus/adjustment policy is in place which allows cancellation/reduction of unvested deferred variable pay. Longer deferral period under PRA Remuneration Rules increases the time period over which malus can be applied. Clawback policy allows us to recoup/reclaim paid awards in certain circumstances as defined by the PRA for a period up to seven years from grant or ten years for those who are identified as Group Senior Managers as per the PRA Remuneration Rules.
- (v) All employees have a values-aligned behaviour rating in addition to a performance rating to ensure performance is not judged based on what is achieved over the short and long term but also how it is achieved, which contributes to the sustainability of the Company.
- (vi) Adherence to HSBC values is a pre-requisite for any employee to be considered for variable pay, and no discretionary variable pay is made for those who receive an unacceptable behaviour rating.
- (vii) Global Consequence Management policy is in place to ensure consistency in approach and actions taken on personal conduct breaches. Clear message is sent to employees on impact of breaches as part of reward communications through pay statements.

8.9 HSBC values are further embedded through in-year positive variable pay adjustments with focus on positive behaviours in the context of Global Standards. Global recognition programme allows employee to perform values-based peer-to-peer recognition activities via a single HSBC platform.

8.10 Regular reviews are undertaken to assess instances of non-compliance with risk procedures and expected behaviour. Instances of non-compliance are escalated for consideration in variable pay decisions, using adjustments, malus and clawback policies, which apply taking into consideration an individual's proximity to, and responsibility for, the issue in question. For material risk takers (MRTs), the HSBC Group Remuneration Committee has oversight of such decisions.

8.11 All variable pay awards made to MRTs for the performance year in which they have been identified, are also subject to the Group Clawback Policy in accordance with the requirements in the United Kingdom's Prudential Regulation Authority's Remuneration Rules.

9. DISCLOSURE ON REMUNERATION

Directors' and Top Five Key Executives Remuneration

- 9.1 Since the Bank is ultimately a wholly-owned subsidiary within the HSBC Group, the Shareholder has determined that there is limited added value to provide detailed, individually-named disclosures on the remuneration of senior management staff. Other than what is disclosed in this Report, the Bank will not be complying in full with principle 9 of the CG Guidelines.
- 9.2 The Board is also of the view that given the sensitive and confidential nature of employees' remuneration, detailed disclosure on the top five executives is not in the best interests of the Bank. Such disclosure would be disadvantageous to the Bank in relation to its competitors and may affect adversely the cohesion and spirit of team work prevailing amongst the employees of the Bank, given the highly competitive conditions in the financial industry where poaching of executives is common place.
- 9.3 Executive Directors who are HSBC Group employees do not receive any remuneration or fees for their services as executive Directors for the Bank. The remuneration for the executive Directors of the Bank is delivered in their capacity of employees of the Group and is in accordance with the Group Remuneration policy.
- 9.4 There are no HSBC employees who are immediate family members of a Director or the CEO where remuneration exceeds \$50,000 during 2016.
- 9.5 The Board recommends the remuneration for the non-executive Directors of the Bank. Any such remuneration is subject to shareholder approval at the Annual General Meeting. The table below shows the annual fees for the non-executive Directors:

	Director	AC Chairman	AC Member	Total
Mr Tarun Kataria	S\$85,000	S\$50,000		S\$135,000
Ms Kwa Kim Li	S\$85,000		S\$30,000	S\$115,000
Mr Mervyn Fong Mun Ngin	S\$85,000		S\$30,000	S\$115,000

- 9.6 A copy of the HSBC Employee share plans is available at the following link: <http://www.hsbc.com/about-hsbc/corporate-governance>.
- 9.7 HSBC Remuneration Practices and Governance is available on the external website, <http://www.hsbc.com/investor-relations/governance>, which explains how we comply with the Remuneration Code. Our Remuneration Policy for all employees is also published on P.156 of the Annual Report and Accounts 2016 for HSBC Holdings plc at this link: <http://www.hsbc.com/investor-relations/group-results-and-reporting/annual-report>

10. ACCOUNTABILITY AND AUDIT

- 10.1 The Board reviews risk, legal, operational and regulatory compliance reports from Management to ensure compliance with all Group's operational practices and procedures and relevant regulatory requirements.
- 10.2 Board members receive quarterly financial statements, operational and other reports from Management containing analysis and explanations of variances against budget to understand the Bank's financial and operational performance and prospects.
- 10.3 The Audit Committee is responsible for reviewing the adequacy of the external and internal audit functions of the Bank, including reviewing the scope and results of audits carried out in respect of the operations of the Bank and the independence and objectivity of the Bank's external auditors.

11. RISK MANAGEMENT AND INTERNAL CONTROLS

Risk Management

- 11.1 Robust risk governance and accountability are embedded throughout the Bank through an established enterprise-wide risk management framework that ensures appropriate oversight of, and accountability for, the effective management of risk at all levels of the organisation and across all risk types. The consistency of governance structures across HSBC Group is enforced through executive risk management meetings and adherence to consistent standards and risk management policies. The Board has ultimate responsibility for approving the bank's risk appetite and the effective management of risk. Management advises the Board on risk appetite and its alignment with strategy, risk governance and internal controls, and high-level risk related matters.
- 11.2 Executive accountability for the ongoing monitoring, assessment and management of the risk environment and the effectiveness of the risk management policies resides with HBSP Chief Risk Officer ("CRO") supported by the Risk Management Meeting ("RMM")
- 11.3 Day-to-day risk management activities are the responsibility of senior managers of individual businesses, supported by global functions as described under the 3 Lines of Defence model. The model delineates management accountabilities and responsibilities over risk management and the control environment thereby creating a robust control environment to manage inherent risks.
- 11.4 HBSP uses four key risk management tools to promote strong enterprise-wide risk management: Risk Appetite Statement ("RAS"), Risk Map, Top & Emerging Risks and Stress Testing. Risk Appetite Profile and Risk Map provide information on our current and projected Risk Profile for awareness and to inform decision making. Top & Emerging Risks and Stress Testing

provide information on the risk landscape that are impacting or could impact our Risk Profile. Enterprise Risk Reports generated by these tools are provided routinely to the Board for information. These consistent and integrated standard reports are used at the RMM to ensure appropriate monitoring and cascading of information is achieved.

- 11.5 The Global Risk Appetite Framework (“GRAF”) sets out HSBC’s approach to measuring, managing and reporting Risk Appetite. It provides a globally consistent approach, outlining processes, policies, metrics and governance, to help ensure that business activities remain within the stated risk appetite of the Bank.
- 11.6 HBSP complies with the GRAF and supplements the framework by setting the scope of applicability and detailing any deviations from the GRAF, including guiding principles, governance, metrics, monitoring and associated reporting processes that are specific to HBSP. The HBSP GRAF Addendum is written in consistence with the HBAP GRAF Addendum.
- 11.7 As required under the MAS Guidelines on Risk Management Practices, the Board has approved a RAS.

Credit Risk

- 11.8 HSBC credit culture is dedicated to achieving and maintaining risk assets of high quality. HBSP is to be committed to sound professionalism and discipline in applying a consistently high standard of credit skills.
- 11.9 HBSP manages and monitors credit risks to properly establish, monitor and control facilities and their utilisation at individual customer or portfolio level, being essential for:
 - (i) ensuring a consistent global approach to credit product risk evaluation and approval;
 - (ii) maintaining durable credit quality at facility and portfolio level, identifying problems or deterioration at an early stage;
 - (iii) ensuring that the level of new business are appropriate and utilisations remain within limits, or otherwise that suitable action is taken; and
 - (iv) in the event of customer failure, ensuring optimum recoveries are achieved.
- 11.10 The RMM has the oversight responsibilities of the following:
 - (i) To understand credit risk, balance sheet dynamics and interaction between portfolios; and
 - (ii) To review credit risk (existing and potential) on a systematic basis, ensuring that:
 - a. a mechanism exists for early identification of risk;
 - b. adequate controls exist to mitigate; and
 - c. related returns reflect the risks and the capital allocated to support them.

Market Risk

- 11.11 Market risk is managed and controlled through limits approved by HBSP Board. The management of market risk is principally undertaken in the Global Markets line of business, where all trading value at risk (“VaR”) resides, using risk limits approved by the Board. VaR limits are set for portfolios, products and risk types, with market liquidity being a primary factor in determining the level of limits set.
- 11.12 HSBC Group’s Global Risk is responsible for setting market risk management policies and measurement techniques. HBSP has an independent market risk management and control sub-function which is responsible for measuring market risk exposures in accordance with the policies defined by Global Risk, and monitoring and reporting these exposures against the prescribed limits on a daily basis. The market risk limits are governed according to the HSBC Group Risk Framework.

Operational Risk

- 11.13 Operational risk management is the responsibility of all employees and business management, supported by the Operational Risk Management Framework. The Operational Risk Framework is a set of tools, processes and activities owned by the Operational Risk function and used by all the global businesses, global functions and HSBC Operations, Services and Technology to support the management of operational risks across the Bank. HBSP follows the HSBC Group policy on Operational Risk Management.
- 11.14 The Operational Risk governance structure provides oversight over the management of operational risks through the Operational Risk Management Forum. It supports the CRO in ensuring that the operational risks inherent in the activities of HBSP are identified, assessed, controlled, monitored & managed in accordance with the business Risk Appetite. Any escalation of issues will be brought to the HBSP RMM.

Board’s Statement on Internal Control

- 11.15 Based on the internal controls established and maintained by the HSBC Group, work performed by the internal and external auditors, and the annual CEO Attestation, the Board, with the concurrence of the AC, is of the opinion that the system of internal controls, including financial, operational, compliance and technology controls and risk management systems, were adequate as at 31 December 2016, to address the risks which the Bank considers relevant and material to its operations. The system of internal controls provides reasonable, but not absolute, assurance that the Bank will not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives. However, the Board also notes that no system of internal controls can provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgment in decision-making, human error, losses, fraud and other irregularities.

12. AUDIT COMMITTEE

12.1 The AC comprises 3 Independent Directors:

Name of Director	Board Membership	Audit Committee
Tarun Kataria	Independent, Non-Executive Director	Chairman
Mervyn Fong Mun Ngin	Independent, Non-Executive Director	Member
Kwa Kim Li	Independent, Non-Executive Director	Member

12.2 The AC performs the functions specified in the Companies Act, the CG Code, CG Guidelines and CG Regulations and is accountable to the Board for oversight of financial reporting. It has explicit authority to investigate matters within its terms of reference and full access to and co-operation by Management and full discretion to invite any Director or executive officer to attend its meetings. The AC's TOR describes its responsibilities.

12.3 In addition to the review of the Bank's financial statements, the AC reviews and evaluates with the external auditors and internal auditors, the adequacy and effectiveness of the system of internal controls including financial, operational, compliance and information technology controls, policies and systems. It reviews the independence and objectivity of the external auditors, and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements and reports from the external auditors. When external auditors provide non-audit services to the Bank, the AC keeps the nature, extent and costs of such services under review, in accordance with the HSBC Group policy on engagement of the external auditor to supply non-audit services. This is to balance the objectivity of the external auditors against their ability to provide value-for-money services. The AC members keep abreast of changes to accounting standards and issues which have a direct impact on financial statements. The AC also reviews any findings of major investigations of internal control over financial reporting matters as delegated by the Board or on the Committee's initiative and assess management's response.

12.4 The AC has held three meetings in 2016 since it was set up on 20 April 2016. The AC TOR provides that the AC shall meet with such frequency and at such times as it may determine. It is expected that the AC shall meet at least 4 times each year.

12.5 The Bank's external auditors have access to and provide regular reports to the AC. The external auditors present their audit plan for the Bank and their evaluation of the Bank's internal accounting controls to the AC for approval. The status of any corrective action required arising from material findings in the external auditor's report is tracked by the relevant function and reported to the AC at its quarterly meetings until they have been addressed conclusively. The AC meets with the external auditor and with the Head of

Internal Audit, in separate sessions and without the presence of Management, at least once a year, to ensure that there are no unresolved issues or concerns. It also undertakes or considers on behalf of the Chairman or the Board such other related tasks or topics as the Chairman or the Board may from time to time entrust it to.

12.6 In respect of FY2016, the AC:

- (i) has reviewed the audited financial statements with Management, including discussions on the quality of the accounting principles applied and significant judgments affecting the financial statements,
- (ii) has discussed with the external auditors the quality of the above principles and judgments; and
- (iii) believes that the financial statements are fairly presented in conformity with the relevant Singapore Financial Reporting Standards in all material aspects, based on its review and discussions with Management and the external auditors.

12.7 The AC makes recommendations to the Board for the appointment, re-appointment and removal of external auditors; and approves the remuneration and terms of engagement. The Board met with the external auditors to discuss their audit of financial year ended 31 December 2016, and reviewed the independence and objectivity of the Bank's external auditors. The AC reviewed the amount of non-audit services provided by the external auditors provided to the Bank for 2016 and was satisfied that the nature and extent of such services did not prejudice the external auditor's independence and objectivity. The external auditors has provided a confirmation of their independence to the AC. Based on the confirmation and based on the review, the AC was satisfied that the external auditors can be considered independent. For the financial year ended 31 December 2016, the external auditors were paid the following:

Breakdown of fees paid:

	\$	%
Statutory audit fees	380,000	68.5
Non-audit fees	<u>174,500</u>	<u>31.5</u>
Total	554,500	100

Whistle-blowing policy

12.8 The Bank's employees have every opportunity to escalate concerns or known violations of company ethics or workplace policies. In the very rare circumstance when an employee witnesses or experiences a possible incident of alleged wrongdoing or violation of company policy, he/she can report it to a manager, a senior manager, human resources or compliance, without fear of retaliation. Whistle Blowing Reporting is a standing agenda at AC meetings.

- 12.9 Employees may report actual or suspected unlawful activity or violation of company policy to:
- (i) the Group Compliance Disclosure Line
 - (ii) a Human Resources professional
 - (iii) via Human Resources Solutions
 - (iv) his/her manager (where appropriate)

13. INTERNAL AUDIT

- 13.1 The Global Internal Audit (“GBL INA”) is the main internal audit function for the Bank. The scope and responsibilities of GBL INA are clearly defined in its Charter. Accountabilities of the audit function include the development and execution of a risk based annual audit plan, covering key risks, emerging risks, horizon risks and regulatory obligations, in line with the Group’s risk management and internal control frameworks. In accordance with its Charter, the primary role of GBL INA is to help Management to protect the assets, reputation and sustainability of the HSBC Group. GBL INA provides independent and objective assurance as to whether the design and operational effectiveness of the Group’s framework of risk management, control and governance processes, as designed and represented by management, is adequate.
- 13.2 The GBL INA and the specialist business and functional auditors currently responsible for coverage of the Bank are staffed with skilled, experienced and appropriately qualified individuals. This includes subject matter experts in fields such as Financial Crime Compliance.
- 13.3 GBL INA adheres to The Institute of Internal Auditors’ (“IIA”) mandatory Standards including the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. In addition, GBL INA complies with Practice Advisories, Practice Guides and recommendations issued by the IIA to the extent that these apply.
- 13.4 HSBC has adopted the “Three Lines of Defence” risk management and internal control structure to ensure it achieves its commercial aims while meeting regulatory and legal requirements and its responsibilities to shareholders, customers and staff. GBL INA’s role as the third line of defence is independent of the first and second lines of defence.
- 13.5 Audit coverage of HBSP is provided by specialist Global Business and Functions audit teams within GBL INA such as the Financial Crime Compliance and RBWM audit teams. A Singapore country audit team is in the process of being established within GBL INA and will be responsible for the oversight of, and provision of audit coverage in, HBSP in conjunction with specialist Global Business and Functions audit teams.

Reporting line of Internal Audit

- 13.6 Global Business and Functions audit teams responsible for coverage of HBSP have dual reporting lines to the Regional Head of Audit for Asia Pacific (a GBL INA Executive Committee member) and Global Business and Functions Audit Team Heads. The Chair of the GBL INA EXCO is the Group Head of Internal Audit who reports functionally into the Chair of the Group Audit Committee and administratively into the Group CEO. The Group Head of Internal Audit is also a member of the HSBC Group Management Board. Based on this structure, GBL INA is independent of the Bank's management and has appropriate standing within the Bank.
- 13.7 Given the existing model of coverage of the Bank by GBL INA, the budget of the internal audit function has not been historically approved by the AC.
- 13.8 As the Bank is a wholly-owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited and is audited by GBL INA, the Bank will not be complying with principle 13.13 to 13.15 of the CG Guidelines apart from what has been disclosed.

14. SHAREHOLDER RIGHTS AND COMMUNICATION

- 14.1 Being a wholly owned subsidiary, there is constant communication at all levels of the Bank with the Shareholder.

Dividend Policy

- 14.2 The Bank will pay dividends out of profits available for distribution after taking into account regulatory capital and other business needs.

15. CONDUCT OF SHAREHOLDER MEETINGS

- 15.1 The Shareholder receives the Bank's Notice of AGM, within the statutory timeline before the AGM. The AGM is convened pursuant to Section 179(6) of the Companies Act, Chapter 50.

16. RELATED PARTY TRANSACTIONS

- 16.1 Policies on material related party transactions are established at HSBC Group level for all HSBC entities. Group policy mandates that all inter-group transactions should be on an arms-length basis. Staff policies on lending are documented as part of the Bank's overall lending program. The Bank also complies with the local regulatory requirements with respect to the monitoring and reporting of the exposure of the Bank to related parties. Material related party transactions are disclosed in the notes to the Company's financial statements for the financial year ended 31 December 2016.

- 16.2 The Bank is working towards complying with the requirements of MAS 643 (“Transactions with Related Parties”) which will come into effect in November 2018, including establishing materiality thresholds for the Board to approve transactions with related parties. In the meantime, all write-offs are dealt with according to Group policies.
- 16.3 The AC has reviewed material related party transactions. With regards to the terms and conditions of such transactions, Group policies dictate that inter-group transactions are on arm’s length basis. With regard to lending to related parties, staff loans do not differ from non-staff loans in terms of credit parameters, as they are tightly regulated. The difference is that staff mortgage loans enjoy lower interest rate vs non-staff. Staff policies are documented by RBWM Risk as part of the Bank’s overall lending program.