

**HSBC BANK (SINGAPORE) LIMITED**

Registration Number: 201420624K

Corporate Governance Report 2018

Date: 8 May 2019

## INTRODUCTION

HSBC Bank (Singapore) Limited (“**Bank**”) was incorporated in Singapore on 14 July 2014 and is licensed by the Monetary Authority of Singapore (“**MAS**”) as a bank with qualifying full bank privileges 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 (“**Shareholder**”).

The board of directors (“**Board**”) is committed to observing good corporate governance and works with senior management (“**Management**”) to deliver sustainable value to stakeholders. This Corporate Governance Report sets out the Bank’s corporate governance practices, which comply with the Banking (Corporate Governance) Regulations (“**CG Regulations**”) and all material aspects of the Guidelines on Corporate Governance for Financial Holding Companies, Banks, Direct Insurers, Reinsurers and Captive Insurers which are incorporated in Singapore (“**CG Guidelines**”). Where the Bank’s practices differ from the CG Guidelines with express disclosure requirements, the rationale is explained in this report.

## BOARD MATTERS (Principles 1 to 6, CG Guidelines)

### Board of directors

The Board currently comprises four members, half of whom are independent and non-executive directors. Mr Anthony William Cripps, the Bank’s Chief Executive Officer (“**CEO**”), is the sole executive director. The non-executive directors are:

- |       |                                  |                                   |
|-------|----------------------------------|-----------------------------------|
| (i)   | Mukhtar Malik Hussain (Chairman) | Non-independent and non-executive |
| (ii)  | Mervyn Fong Mun Ngin             | Independent and non-executive     |
| (iii) | Tarun Kataria                    | Independent and non-executive     |

On 17 October 2018, Mr Mukhtar Malik Hussain was appointed as director and Chairman of the Board in place of Mr Guy Daniel Harvey Samuel. Ms Kwa Kim Li, who was appointed to the Board on 20 April 2016, had decided not to seek re-appointment at the end of her three-year term and ceased to be a director on 19 April 2019. Both Mr Guy Daniel Harvey Samuel and Ms Kwa Kim Li had stepped down from the Board due to competing time commitments. Succession planning is an ongoing process. The Board will continue to assess the board size and the skills and expertise required to provide effective stewardship of the Bank.

### Information on directors

#### Mr Mukhtar Malik Hussain

*Chairman*

*Non-independent and non-executive*

Mr Mukhtar Malik Hussain was appointed to the Board on 17 October 2018 and, as he joined during the financial year, his appointment is subject to re-election at the forthcoming AGM. He was appointed a member of the Audit Committee (“**AC**”) and Risk Committee (“**RC**”) on 19 April 2019.

Mukhtar Hussain is a Group General Manager of HSBC Group and is currently the Head of Belt and Road Initiatives and Business Corridors for HSBC Asia Pacific. He has been with the HSBC Group for more than 30 years and has held numerous key senior positions managing HSBC’s business in the Middle East, North Africa and Malaysia. Between 2008 to 2009, he was the Deputy Chairman of HSBC Bank Middle East Limited and Global CEO of HSBC Amanah. He thereafter took on the role of CEO of HSBC Bank Malaysia Berhad from November 2009 to April 2018.

#### Academic and professional achievements

- University of Wales, UK, Bachelor of Science (Economics)
- Asian Institute of Chartered Bankers, Kuala Lumpur
- Securities Institute Exams, London

#### Current directorships

- HSBC Bank Malaysia Berhad: Director
- HSBC Amanah Malaysia Berhad: Director
- ICLIF Malaysia: Director

#### Other principal commitments

- The Hongkong and Shanghai Banking Corporation Limited: Head of Belt and Road Initiatives and Business Corridors, Asia Pacific

#### Past directorships in listed companies in last three years

- Nil

#### **Mr Anthony William Cripps**

*Director and CEO*

*Non-independent and executive*

Mr Anthony William Cripps was first appointed to the Board on 20 April 2016 and was last re-elected as a director on 30 June 2018. He was appointed as CEO on 1 April 2017.

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

He joined HSBC in 1986 as a floor trader for the Sydney Futures Exchange, went on to manage the futures business in Australia and eventually became the 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 and subsequently took on the expanded role of Head of Global Banking and Markets. He was the President and CEO of HSBC Philippines between 2010 and 2012, during which he also served as Chairman of HSBC Savings Bank and HSBC Insurance Brokers, Inc., Chairman and Trustee of HSBC Retirement Trust Fund, Inc. and a director of OCLP Holdings, Inc. Between 2013 and his appointment as CEO in Singapore, he was the CEO of HSBC Australia, which experienced a period of significant growth under his leadership.

#### Academic and professional achievements

- Sydney University (Economics)
- London Business School of Economics (Published research paper – The Refutation of Random Market Theory)
- NSW University (Psychology Lecturer – Guest Lecturer of Australian Graduate School of Management)

#### Current directorships

- HSBC Institutional Trust Services (Singapore) Limited: Chairman
- HSBC Trustee (Singapore) Limited: Chairman
- HSBC Global Asset Management (Singapore) Limited: Director
- HSBC Securities (Singapore) Pte Limited: Chairman
- HSBC (Singapore) Nominees Pte Ltd: Chairman
- HSBC Insurance (Singapore) Pte. Limited: Chairman
- HSBC International Trustee (Holdings) Pte. Limited: Chairman

#### Other principal commitments

- The Hongkong and Shanghai Banking Corporation Limited: Executive Committee member
- The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch: Chief Executive Officer and Authorised Representative
- The Association of Banks in Singapore: Council Member
- The National Youth Achievement Award Advisory Board: Member

- The Institute of Banking and Finance: Council Member

Past directorships in listed companies in last three years

- Nil

**Mr Mervyn Fong Mun Ngin**

*Director*

*Independent and non-executive*

Mr Mervyn Fong Mun Ngin was first appointed to the Board on 20 April 2016 and last re-elected as a director on 30 June 2018. He is the Chairman of the RC and a member of the AC.

He joined Samuel Montagu & Co Limited in 1982 as a capital markets manager. After 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 and Capital Markets/Treasurer Singapore in 2004. From 2004 to 2008, he was the Deputy CEO of HSBC Indonesia. He was also the Chairman of the Singapore Investment Banking Association.

Academic and professional achievements

- National University of Singapore, MBA
- University of Birmingham, UK, Bachelor of Commerce (Honours)
- INSEAD, France, High Performance Leadership Programme
- IMD, Switzerland, Strategic Implementation Programme
- London Business School, UK, Business Management Programme

Current directorships

- Nil

Other principal commitments

- ACI Singapore-The Financial Markets Association: Consultant to Executive Committee
- Confrerie de la Chaine des Rotisseurs, Bailliage de Singapour: Honorary Conseiller
- Barker Road Methodist Church, Singapore: Member of Finance Committee
- Trinity Annual Conference (TRAC), The Methodist Church in Singapore: Member of Executive Board; Vice Chairman of Board of Finance; and Chairman of the Investment and Reserves Committee

Past directorships in listed companies in last three years

- Nil

**Mr Tarun Kataria**

*Director*

*Independent and non-executive*

Mr Tarun Kataria was first appointed to the Board on 20 April 2016 and last re-elected as a director on 30 June 2018. He is the Chairman of the AC and a member of the RC.

He was an advisor to Religare Capital Markets and, between 2010 and 2013, its CEO, India. Prior to joining Religare Capital Markets, he held various senior positions within the 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, a director of HSBC InvestDirect Limited and Managing Director and Head of Institutional Sales, HSBC Global Markets. He was also the Executive Advisor of Graymatics-SG Pte. Ltd. and the Board Chairman of 38 Degrees Pte. Ltd.

Academic and professional achievements

- The Wharton School, University of Pennsylvania, MBA (Finance)
- Institute of Chartered Accountants, India

- Sydenham College of Commerce & Economics, Bombay University

#### Current directorships

- Mapletree Logistics Trust Management Ltd. (as Manager for Mapletree Logistics Trust\*): Director
- Westlife Development Ltd, India\*: Director
- Poddar Housing and Development Ltd, India\*: Director
- Global Moats Fund, Mauritius: Director
- Sterlite Investment Managers Limited (as Trust Manager for India Grid Trust Ltd\*): Director
- Jubilant Pharma Limited: Director
- WWF-World Wide Fund for Nature (Singapore) Limited: Director
- Eagle Hospitality REIT Management Pte. Ltd (as Manager of Eagle Hospitality Real Estate Investment Trust: Director

*\*listed*

#### Other principal commitments

- BondLinc Private Limited: Advisory Board member
- New Amsterdam Group: Advisory Board Member

#### Past directorships in listed companies in last three years

- Nil

#### **Board duties**

The Board is collectively responsible for the long-term success of the Bank and delivery of sustainable value to the Shareholder and other stakeholders. Its key responsibilities include:

- (i) providing entrepreneurial leadership within a framework of prudent and effective controls which enables risks to be assessed and managed;
- (ii) setting the strategy and risk appetite and approving the capital and operating plans for the Bank's achievement of the HSBC Group's strategic objectives;
- (iii) overseeing risk governance;
- (iv) reviewing the nominations and reasons for resignations of key appointment holders including directors, the CEO, Chief Financial Officer ("CFO") and Chief Risk Officer ("CRO");
- (v) providing oversight of Management;
- (vi) considering sustainability issues in formulating strategies;
- (vii) ensuring that Management formulates policies and processes to promote fair practices and high standards of business conduct; and
- (viii) providing stewardship of the HSBC corporate values and standards.

In addition to matters reserved to the Board by law and the Bank's Constitution, the following matters specifically require board approval:

- (i) strategic plans, annual operating plan, risk appetite and performance targets for the Bank;
- (ii) establishment of effective procedures for the monitoring and control of operations including internal procedures for audit, risk and compliance;
- (iii) recovery plan of the Bank;
- (iv) authority or delegation of authority to approve credit, market risk limits, acquisition, disposal, investment, capital expenditure or realisation and creation of a new venture;
- (v) appointment, resignation or removal 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.

All directors are required to act objectively in discharging their duties, and in the interests of the Bank. Where a director has a personal interest in a matter that may conflict with the director's duties to the Bank, the director

is required to disclose the conflict, recuse himself from the discussion of the matter and abstain from voting on the matter.

### Board delegation

The Board has delegated certain duties to two board committees while retaining overall oversight. The committees are the AC and RC. The board committees have been constituted in accordance with the CG Regulations. Each board committee has written terms of reference which set out the committee's responsibilities. The terms of reference of the committees and the effectiveness of the committees are reviewed annually. Any changes to the terms of reference is subject to the Board's approval. Each committee provides a report of its activities and the minutes of its meeting to the Board at least quarterly.

As allowed under the CG Regulations, the Board performs the responsibilities of a nominating committee. The MAS has, pursuant to Regulation 39(1) of the CG Regulations, exempted the Bank from forming a remuneration committee as the responsibilities of such committee are undertaken by the HSBC Group Remuneration Committee. The Board has not established a Board executive committee.

The Board has delegated certain authorities to the CEO and senior management of the Bank, with powers of sub delegation in relation to the day-to-day management of all business and support functions of the Bank within certain financial limits and in accordance with certain directions.

### Meetings and attendance

The Board and each of the board committees have four scheduled meetings in a year. Additional meetings are convened when required. Directors are provided with comprehensive information related to the agenda items in a timely manner. 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. All deliberations and decisions of the Board and board committees are minuted and maintained by the Company Secretary.

The constitution of the Bank provides for a director to participate in a meeting via telephonic or video conference where exigencies prevent the director from attending the meeting in person. The table below sets out the number of meetings of the Board and board committees held in 2018 and the attendance of directors at the meetings.

#### 2018 Meetings and Attendance

	Board	RC	AC
<b>Number of meetings held</b>	<b>4</b>	<b>4</b>	<b>4</b>
<b>Number of meetings attended by director</b>			
Mr Mukhtar Malik Hussain <sup>1</sup>	1/1	-	-
Mr Guy Daniel Harvey Samuel <sup>2</sup>	3/3	-	-
Mr Anthony William Cripps	3/4	-	-
Mr Mervyn Fong Mun Ngin	4/4	4/4	4/4
Ms Kwa Kim Li <sup>3</sup>	4/4	4/4	4/4
Mr Tarun Kataria	4/4	4/4	4/4

<sup>1</sup> Appointed as Director and Chairman on 17 October 2018

<sup>2</sup> Resigned as Director and Chairman with effect from 17 October 2018

<sup>3</sup> Ceased to be Director on 19 April 2019 at the end of three-year term

### Directors' induction and continuous development

Upon appointment, new directors are given a comprehensive and tailored induction. The induction includes materials on a director's duties and obligations, the terms of reference of the Board and board committees and

relevant HSBC Group policies. As part of the induction, new directors meet with key senior executives and receive briefings on the Bank's business, operations, risk management and governance practices.

All directors are given appropriate training on a continuing basis. Directors attend in house and external programmes, such as those conducted by the Singapore Institute of Directors. Directors may also request training on specific topics of interest. In addition to in-house and external programmes, executive directors have access to training programmes for employees.

Training topics covered in 2018 included related party transactions, financial crime risk governance, sanctions, data privacy, cyber security, anti-bribery and corruption, anti-money laundering, stress test scenarios and recovery plan.

Annually, the directors are given updates on key HSBC policies. At quarterly Board and board committee meetings, directors are briefed on matters relating to risk management including financial crime risk and regulatory compliance risk, the Bank's culture and behavioural standards and on customer experience.

The Board is satisfied that the regular updates and training as set out above met the objective of equipping them with the appropriate knowledge to perform their duties.

### **Culture and conduct**

As part of the HSBC Group, the Bank adopts the HSBC values which promote high levels of professional conduct of business. The values emphasise proper conduct including integrity at all times and are adopted as performance appraisal criteria for employees. All employees of the Bank are required to undergo training on the values.

The Bank has established guidelines for assessing and handling customer complaints received and properly documenting the assessment outcome for each complaint. Management reviews regular reports on customer complaints and highlights material complaints to the Board.

### **Board composition**

Annually, the Board assesses its size and composition and each director's independence.

The Board has assessed that each director remains fit and proper and qualified for office and contributes to the collective skills, experience and knowledge of the Board. Collectively, the Directors have experience in banking, finance and management, providing the core competencies that are relevant to the Bank's business and contributing to the effective oversight of the Bank's affairs. After taking into account the Bank's scope and nature of business and operations, the Board considers a board size of up to six members appropriate for overseeing the Bank's affairs and for progressive renewal of the Board. The Board expects to appoint new directors in the near term.

In assessing each director's independence, the Board considers the director's profile, disclosures of his other appointments, interests or personal circumstances as well as responses in questionnaires. The questionnaires are designed for assessing a director's independence based on the criteria in the CG Regulations and CG Guidelines and whether he/she is a fit and proper person for office based on the MAS Guidelines on Fit and Proper Criteria.

There is a strong independent element on the current Board, with independent directors making up half of the Board. Each director's tenure on the Board is less than nine years. Page 9 sets out the Board's assessment of directors' independence.

In addition, a majority of the Board comprises non-executive directors. This Board composition allows constructive challenge of proposals tabled before the Board. To facilitate and even more effective check and balance on senior management, the non-executive directors meet at least once a year without the presence of Management.

## Chairman and CEO

The roles of the Chairman and the CEO are separate and held by unrelated individuals.

Mr Mukhtar Malik Hussain is the non-independent and non-executive Chairman. The Chairman's responsibilities include providing leadership to the Board, setting the agenda for Board meetings, ensuring that directors receive timely and comprehensive information for informed deliberations and promoting high standards of corporate governance.

The CG Guidelines have recommended the appointment of a lead independent director where the Chairman is not an independent director. The Board is of the view that it is not necessary to do so as there is a strong independent element on the Board, notwithstanding that the Bank is a wholly-owned subsidiary. Further, the Chairman is able to foster open and constructive discussions during meetings and, as a nominee of the Shareholder, to facilitate effective communication with the Shareholder.

The CEO is Mr Anthony William Cripps. He leads the management team and implements the decisions of the Board and Board Committees. Assisted by management committees, the CEO is responsible for the Bank's day-to-day operations and business, including ensuring the continued adequacy and effectiveness of the system of internal controls and risk management.

## Selection and nomination of directors

The Board performs the functions of a nominating committee, whose main responsibilities include:

- (i) identifying and evaluating candidates for the Board and Board Committees;
- (ii) assessing the independence of Directors;
- (iii) reviewing the size and composition of the Board and Board Committees;
- (iv) evaluating the performance of the Board, Board Committees and each director; and
- (v) reviewing the nomination, appointment and reasons for the resignation of Directors and the CEO, CFO and CRO.

The criteria applied by the Board in identifying and evaluating candidates include (i) compliance with the CG Regulations requirements on independence and composition for Board and board committees; (ii) whether the candidate is a fit and proper person for the office and is qualified for office, taking into account inter alia, the candidate's experience, capabilities and skills; (iii) whether the candidate has the appropriate knowledge and skills that the Board and board committee members require to discharge their responsibilities effectively ("**skills matrix**"); and (iv) whether the candidate will be able to allocate sufficient time to discharge his responsibilities effectively.

In recommending the appointment and re-appointment of executive and non-executive directors to the Board, the Board seeks to ensure that these directors fulfill their criteria and skill sets which are aligned with the strategic direction and emerging challenges faced by the Bank.

As part of the fit and proper assessment, the Bank conducted vetting checks which included credit bureau, litigation and blacklist searches.

The Board in considering whether the candidate would be able to allocate sufficient time, had set 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.

## Key appointment holders

Jamil Ahmed was appointed in August 2018 as the Head of Financial Crime Compliance in place of Beaver Chua who left the service of the Bank in June 2018 to pursue other opportunities.



## Re-appointment of directors

Each of the directors are subject to re-election at the Annual General Meeting (“**AGM**”). Mr Anthony William Cripps, Mr Mervyn Fong Mun Ngin and Mr Tarun Kataria were re-elected at the 2018 AGM. Mr Mukhtar Malik Hussain who was appointed during the financial year will be subject to re-election at the next AGM together with the other Directors.

In considering the re-appointments of Mr Anthony William Cripps, Mr Mervyn Fong Mun Ngin and Mr Tarun Kataria the Board conducted its annual review to assess (i) the independence status of each Director, (ii) whether each Director remained a fit and proper person and qualified for office, (iii) each Director’s attendance, time commitment and contribution, and (iv) the composition of the Board against the skills matrix. Prior to the Board meeting, the directors completed fit and proper declarations confirming their fit and proper status. The Board had concluded that each director was fit and proper for the position of director on the basis of their assessment, the individual’s fit and proper declarations and results of various searches including credit bureau, litigation and blacklist searches conducted on each director.

## Independence of Directors

The independence of a director is determined based on the criteria set out in the CG Regulations and the CG Guidelines. The CG Regulations provide that a director is considered independent if he is independent from management and business relationships and the substantial shareholder and if he has not served on the Board for a continuous period of nine years or more. The Board made the following independence assessments in May 2019:

- (i) 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.
- (ii) 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.
- (iii) Mr Mukhtar Malik Hussain is an employee of the Shareholder and is the currently the Head of Belt & Road Initiative and Business Corridors, Asia Pacific of the Shareholder. He is also a director of HSBC affiliates. In the course of the 2018 financial year, payments were made and received between the Bank and the Shareholder. These were mainly payments for infrastructure, support services and intra-group borrowing/lending activities which were made in the usual course of business. Mr Mukhtar Malik Hussain is independent from management relationships with the Bank on the grounds that he was not involved in the day-to-day operations and decision making of the Bank and, Mr Anthony William Cripps the CEO of the Bank does not report to Mr Mukhtar Malik Hussain. Mr Mukhtar Malik Hussain is independent from business relationships with the Bank on the grounds that the aforesaid payments made and received were in the usual course of business and, Mr Mukhtar Malik Hussain did not have any direct control over the payments made. Mr Mukhtar Malik Hussain derived no personal benefit from these payments.
- (iv) Mr Tarun Kataria 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.

With two independent directors, namely Mr Mervyn Fong Mun Ngin 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. The Bank also satisfied the requirement under the CG Regulations that independent directors make up at least half of the board where the Chairman is not an independent director.

None of the independent directors have served on the Board for more than nine years from the date of first appointment.

## **Board Performance**

The Board performs an annual assessment of its own effectiveness and that of its committees. Each director participates and evaluates the performance of the Board and board committees based on a set of performance criteria adopted from HSBC Group which includes quality of risk management, adequacy of internal controls, attendance of directors at Board and board committee meetings, and the individual's skills and expertise. 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. The results of these collective self-assessments are reviewed and discussed at the Board. The assessment results are used constructively to discuss improvement opportunities for the Board and board committees.

## **Board's access to information**

Directors have separate and 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 and to discharge their duties effectively. 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 monthly 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. The Board has unrestricted access to the Bank's senior executives at all times. All scheduled Board and Board Committee meetings papers are distributed to Directors not less than 7 days in advance of the meetings. Directors are also equipped with secure access to electronic Board and Board Committee meeting materials. Any additional material or information requested is furnished promptly.

## **Company Secretary's duties**

Directors have separate and unrestricted access to the Company Secretary. The Company Secretary attends all Board, AC, RC 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 AC, RC 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 AC and RC and the audit and risk 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.

The appointment and removal of the Company Secretary is subject to approval by the Board.

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.

## **REMUNERATION MATTERS (Principles 7 to 9, CG Guidelines)**

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.

The board of directors of the Shareholder, adopts the remuneration policy of HSBC Holdings plc. The remuneration policy is approved by the HSBC Group Remuneration Committee which comprises independent non-executive directors. The HSBC Group Remuneration Committee is responsible for setting the principles, parameters and governance framework for HSBC Group's remuneration policy applicable to all HSBC Group employees. It also oversees the application of the policy to subsidiaries and branches, subject to local regulations and is responsible for assessing that there are effective safeguards in place to ensure that remuneration policies are clearly aligned with the Group's risk appetite and regulatory requirements. The Shareholder's Board and its Remuneration Committee consisting of independent non-executive directors are accountable to review the Group policy and to independently consider its effectiveness in complying with local regulations in order to support delivery of its strategic priorities.

### **Level and mix of remuneration**

The Bank's remuneration is aligned to the HSBC Group's remuneration policy and practices which promote sound and effective risk management and support our business objectives.

Our remuneration strategy is designed to reward competitively the achievement of long-term sustainable performance and attract and motivate the very best people regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience with the HSBC Group while performing their role in the long-term interests of our stakeholders.

Total compensation, consisting of fixed pay and variable pay, is the key focus of our remuneration framework, with variable pay (namely annual incentive and long term incentives) differentiated by performance and adherence to HSBC values.

Where employees are eligible to be considered for a discretionary variable pay award, the amount will be determined based on overall group affordability, any adjustment relating to recognition and conduct, individual performance and adherence to HSBC values.

There is no specific policy setting out the proportion of variable pay over total compensation other than for those employees who have been identified as a Material Risk Taker ("MRT") in accordance with the European Union Regulatory Technical Standard 604/2014. For MRTs, their variable pay awards will be limited to 200% of fixed pay.

In principle, variable pay represents a higher proportion of total compensation for more senior employees and will be more closely aligned to HSBC Group and business performance as seniority increases. All awards are subject to malus and awards granted to employees identified as MRTs are subject to clawback.

The Group's remuneration strategy, as approved by the Group Remuneration Committee, is based on the following principles:

- Alignment to performance at all levels (individual, business and Group) taking into account both 'what' has been achieved and 'how' it has been achieved. The 'how' helps ensure that performance is sustainable in the longer term, consistent with HSBC's values and risk and compliance standards.
- Being informed, but not driven by, market position and practice. Market benchmarks are sourced through independent specialists and provide an indication of the range of pay levels and employee benefits provided by our competitors.
- Consideration of the full-market range when making pay decisions for employees, taking into account the individual's and the Group's performance in any given year. An individual's pay will vary depending upon their performance.

- Compliance with relevant regulation across all countries and territories in which HSBC operates.

Based on these principles, HSBC's approach to determining remuneration is based on the following objectives:

- Offering our employees a competitive total reward package. This includes market competitive fixed pay levels, which ensure our employees are able to meet their basic day-to-day needs;
- Maintaining an appropriate balance between fixed pay, variable pay and employee benefits, taking into consideration an employee's seniority, role, individual performance and the market;
- Ensuring variable pay is awarded on a discretionary basis and dependent upon Group, business and individual performance;
- Offering employee benefits that are valued by a diverse workforce, appropriate at the local market level and support HSBC's commitment to employee well-being;
- Promoting employee share ownership through variable pay deferral or voluntary enrolment in an all employee share plan; and
- Linking reward packages to performance and behaviour with no bias towards an individual's ethnicity, gender, age, or any other characteristic.

Please refer to the HSBC remuneration practices and governance at <http://www.hsbc.com/about-hsbc/corporate-governance/remuneration> and the Capital and Risk Management Pillar 3 Disclosures of HSBC Holdings plc for details of the major design characteristics of the remuneration system including alignment between risk and reward.

### **Remuneration of key executives**

The Bank is ultimately a wholly-owned subsidiary of HSBC Holdings plc. As set out above, the Bank's remuneration is aligned to HSBC Group's remuneration policy and practices. HSBC Group including the Shareholder has full knowledge of the remuneration of the executive directors and non-executive directors employed by HSBC Group and the top five key executives.

The Board is also of the view that given the sensitive and confidential nature of employees' remuneration, detailed disclosure on the remuneration of each of these individuals is not in the best interests of the Bank and may affect adversely the cohesion and spirit of team work prevailing amongst the employees of the Bank. Since the Bank is a wholly-owned subsidiary of the HSBC Group, providing such remuneration details will prejudice the Bank's interests in relation to its competitors, given the highly competitive conditions in the financial industry where poaching of executives is common place.

### **Remuneration of Executive Directors and Non-Executive Directors employed by HSBC Group**

Executive directors and non-executive directors employed by HSBC Group do not receive any remuneration or fees for their services as directors for the Bank. The remuneration for such directors is delivered in their capacity of employees of the HSBC Group and is decided in line with HSBC Group's remuneration policy.

### **Remuneration of Independent Non-Executive Directors**

The following remuneration for independent non-executive directors is in line with the HSBC Group's remuneration framework for independent directors:

	<u>Role</u>	<u>Fees per annum</u>
(i)	Board Chairman's fee	S\$136,000
(ii)	Board member's fee	S\$85,000
(iii)	Committee Chairman's fee for Audit and Risk Committees	S\$50,000
(iv)	Committee member's fee for Audit and Risk Committees	S\$30,000

There are no employees of the Bank who are immediate family members of a director or the CEO whose remuneration exceeds S\$50,000 during 2018.

## **Employee share plans**

HSBC operates all-employee share option plans under which options are granted over HSBC ordinary shares. Subject to leaver provisions, all eligible employees are entitled to participate in the all-employee share option plan. Options are normally exercisable after three to five years. HSBC's all-employee share plan is also published on page 170 of the Annual Report and Accounts 2018 for HSBC Holdings plc at this link: <http://www.hsbc.com/investor-relations/group-results-and-reporting/annual-report>.

No disclosure is made on the Bank's directors' interests in HSBC Holdings plc shares as there are no public shareholders of the Bank whose interests need to be protected through the disclosure of the directors' interests. In addition, in the case of executive directors and non-executive directors of the Bank who are employed by HSBC Group, share options and discretionary awards of shares granted to them are considered part of their remuneration package and, as mentioned above, such disclosure would prejudice the Bank's interests in relation to its competitors.

## **ACCOUNTABILITY AND AUDIT (Principle 10, CG Guidelines)**

The Board reviews risk, legal, operational and regulatory compliance reports from management to ensure compliance with all HSBC Group's operational practices and procedures and relevant regulatory requirements.

Board members receive 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. The financial performance of the Bank, including explanation against plan, is presented at each quarterly AC and Board meeting.

The AC 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.

## **RISK MANAGEMENT, INTERNAL AUDIT AND INTERNAL CONTROLS (Principles 11 to 13, CG Guidelines)**

### **Risk Management**

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, and clear escalation path for the effective management of risk at all levels of the organisation and across all risk types.

The governance model is organized around two meeting types, formal decision-making governance meeting/committees; and informal risk governance forums. The consistency of governance structures across the Bank is enforced through risk management meetings/committee 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. The Bank's management advises the Board on risk appetite and its alignment with strategy, risk governance and internal controls, and high-level risk related matters.

Executive accountability for the ongoing monitoring, assessment and management of the risk environment and the effectiveness of the risk management policies resides with the Risk Management Meeting ("RMM").

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 defines who is responsible to do what to identify, assess, measure, manage, monitor and mitigate risks, encouraging collaboration and enabling efficient coordination of risk and control activities.

The Bank uses four key risk management tools to promote strong enterprise-wide risk management: Risk Appetite Statement (“**RAS**”), Risk Map, Top and 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 and 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 on a monthly basis to RMM and 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.

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.

The Bank 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 the Bank. The Bank’s GRAF Addendum is written consistent with the Shareholder’s GRAF Addendum and is subject to annual review and approval by the Board.

As required under the MAS Guidelines on Risk Management Practices – Board and Senior Management, the Board has approved a Risk Appetite Framework (RAF) for the Bank. An update on effectiveness of Risk Management Function is provided to the Risk Committee (RC) annually with an overview of governance structure, framework for managing enterprise wide risks and capacity and capability of resources within risk function to fulfill these responsibility. Moreover, a Chief Risk Officer report is presented to the Risk Committee at every meeting, which, in addition to updates on management of various risks – Credit, Operational, Security - also provides insight into effectiveness of internal controls.

### Credit Risk

HSBC credit culture is dedicated to achieving and maintaining risk assets of high quality. The Bank is to be committed to sound professionalism and discipline in applying a consistently high standard of credit skills.

The Bank 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.

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

Market risk is managed and controlled through limits approved by the 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.

HSBC Group's Global Risk is responsible for setting market risk management policies and framework. The Bank 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

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. The Bank follows the HSBC Group policy on Operational Risk Management.

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 the Bank are identified, assessed, controlled, monitored & managed in accordance with the business Risk Appetite. Any escalation of issues will be brought to the RMM.

### **Internal audit**

Internal Audit coverage of the Bank is performed by a HSBC Singapore-based audit team. The Singapore audit team is responsible for the oversight of, and provision of audit coverage in, the Bank in conjunction with specialist global business and functions audit teams established by the HSBC Group's Global Internal Audit ("**GBL INA**") function.

The Bank has a Head of Internal Audit ("**Head of INA**") overseeing internal audit matters. The AC had reviewed the adequacy and effectiveness of the Internal Audit function including whether it has adequate resources to fulfill its duties. 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.

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. The Singapore Internal Audit function ("**SG INA**") adopts the GBL INA standards.

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.

The Singapore Audit team reports into the Regional Head of Audit as well as to the CEO of HSBC Singapore. Global Business and Functions audit teams responsible for coverage of the Bank 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, the internal audit function is independent of the Bank's management and has appropriate standing within the Bank.

SG INA follows a risk-based methodology in determining audit needs and formulating an annual plan of audit. SG INA works in close coordination with GBL INA to ensure audit coverage is sufficient for the Bank and from HSBC Group's perspective. The AC reviews the internal audit plan and progress against the plan. The AC may also direct the Head of INA or the SG INA function to perform specific reviews. The internal audit plan is reviewed on a periodic basis and any changes to the plan are discussed with and reviewed by the AC. The AC reviews the performance of SG INA annually, and is satisfied that the performance of the internal audit function was effective and adequate, and that the internal audit function was adequately resourced.

On a quarterly basis, the Head of INA updates the AC on all completed and upcoming audits and findings from audits conducted. The AC meets with the Head of Internal Audit, without the presence of Management at least once a year. The Internal Audit has unfettered access to the AC, the Board and the Management to carry out its functions.

### **Board Risk Committee (RC)**

As at the date of this report, the RC comprises Mr Mervyn Fong Mun Ngin (Chair), Mr Mukhtar Malik Hussain and Mr Tarun Kataria. Mr Mukhtar Malik Hussain was appointed to the RC as a member on 19 April 2019.

Under the terms of reference of the RC, the RC is responsible for the oversight of risk-related matters including risk governance and internal control systems (other than internal controls over financial reporting). The RC is responsible, *inter alia*, for reviewing and providing independent challenge on risk management reports, assessing the risk profile of the Bank and how the risks arising from the Bank's businesses are controlled, monitored and mitigated, for focusing on current and forward-looking risks to assess the Bank's vulnerability and resiliency to potential risks, reviewing the effectiveness of the Bank's conduct framework designed to deliver fair outcomes for customers and reviewing and satisfying itself that the Bank's stress testing framework, governance and related internal controls are robust.

### **Board Audit Committee (AC)**

As at the date of this report, the AC comprises Mr Tarun Kataria (Chair), Mr Mervyn Fong Mun Ngin and Mr Mukhtar Malik Hussain. Mr Mukhtar Malik Hussain was appointed to the RC as a member on 19 April 2019.

The Board, through the AC, ensures the integrity of the financial reports and oversees the Bank's financial reporting, internal accounting control system and the audit function.

### Responsibilities

The AC has responsibility, delegated to it from the Board, for overseeing all matters relating to financial reporting. In discharging their responsibility, the AC oversees:

- (i) preparation of financial statements, compliance with accounting standards and accounting judgements;
- (ii) the effectiveness of internal financial control functions;
- (iii) the independence and performance of Internal Audit;
- (iv) the relationships with external auditors, including their objectivity, performance, appointment and remuneration; and
- (v) whistleblowing.

The AC held four scheduled meetings in 2018. During 2018, the AC reviewed, *inter alia*, the following:

#### (i) Financial statements:

On a quarterly basis, the AC reviews, *inter alia*, financial performance updates, updates on all completed and upcoming audits and updates on controls relating to financial reporting.

The AC reviews the Bank's financial statements before they are submitted to the Board. In respect of the financial year ended 31 December 2018, the AC reviewed the audited financial statements with



management, including discussions on the accounting principles applied and significant account judgements and adjustments affecting the financial statements and, discussed with the external auditors the quality of the above principles and judgements.

The AC received assurance from the CEO and CFO that that the financial statements for the financial year ended 31 December 2018 have been properly maintained and the financial statements give a true and fair view of the Bank's operations and finances. The AC is of the view that the Bank's financial statements are fairly presented in conformity with the relevant Singapore Financial Reporting Standards in all material aspects.

(ii) ICAAP and stress testing:

The AC reviews the Bank's Internal Capital Adequacy Assessment Process ("ICAAP") annually and also reviewed the results from the stress-testing process to ensure overall alignment with the Bank's ICAAP.

(iii) Internal Audit:

On a quarterly basis, the Head of INA updates the AC on all completed and upcoming audits and findings from audits conducted. As mentioned above, the AC meets with the Head of Internal Audit, without the presence of Management at least once a year.

In addition, the AC oversees the internal audit plan and progress against plan, as mentioned above in page 15.

(iv) External Audit:

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 reviewed and recommended to the Board, that the external auditors be re-appointed. In its review, the AC reviewed the independence of the external auditors, the work performed by the external auditors and the fees paid to the external auditors for the provision of audit and non-audit services to the Bank for 2018. The AC was satisfied that the nature and extent of non-audit services did not prejudice the external auditor's independence and objectivity and, that the external auditors can be considered independent. The external auditors' remuneration, as disclosed in the 31 December 2018 financial statements, comprise (a) statutory audit fees of S\$626,000; and (b) non-audit services fees of S\$169,000.

(v) Whistleblowing:

The Bank adopts the HSBC Group's whistleblowing policies and procedures. The AC is satisfied that whistleblowing arrangements are in place for capturing and responding to whistleblower concerns in confidence. At each AC meeting, the AC is provided with management information on whistleblowing cases.

The AC meets with the external auditors and the Head of Internal Audit, in separate sessions and without the presence of Management, at least once a year.

The AC members keep abreast of changes to accounting standards and issues which have a direct impact on financial statements through updates and briefings by the management and external auditors.

## **Internal controls and risk management**

Based on the internal controls established and maintained by the HSBC Group, the Board, through the AC and RC, is of the opinion that the system of internal controls, covering all material controls, including financial, operational and compliance controls and risk management systems were adequate as at 31 December 2018, to address the risks which the Bank considers relevant and material to its operations. The system of internal controls, and risk management 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 and risk management can provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, losses, fraud and other irregularities.

## **SHAREHOLDER (Principles 14 to 16, CG Guidelines)**

There is effective communication between the Bank and the Shareholder, which is entitled to participate in decisions concerning key corporate changes, such as any appointment to the Board and Board Committees and any amendment to the Bank's Constitution.

### **Dividend Payment**

Declared dividends are paid out of the Bank's profits available for distribution after taking into account regulatory capital and other business needs.

### **AGM**

The Bank holds its AGM within six months from the financial year-end. The AGM is convened pursuant to Section 179(6) of the Companies Act.

## **RELATED PARTY TRANSACTIONS (Principle 17, CG Guidelines)**

Policies on related party transactions are established at the HSBC Group level for all HSBC entities. Group policies mandate that inter-Group transactions are conducted on an arm's length basis. Staff lending policies are documented as part of the Bank's overall lending programme. The Bank also complies with local regulatory requirements with respect to the monitoring and reporting of the exposures of the Bank to related parties. The Bank is reviewing its related party transactions policy in light of the MAS Notice 643 on Transactions with Related Parties taking effect on 1 July 2019.

In connection with the preparation of the Bank's annual statutory accounts, the AC reviews all material related party transactions to assess if they are undertaken in the ordinary course of business, on normal commercial terms and at arm's length. The Bank disclosed related party transactions in the notes to the financial statements for the financial year ended 31 December 2018.