

HSBC INSURANCE (SINGAPORE) PTE. LIMITED (the “Company”)  
Registration Number: 195400150N

Corporate Governance Report 2015

Issued on 30 May 2016

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## BOARD MATTERS

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### 1. THE BOARD'S CONDUCT OF AFFAIRS

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- 1.1 The Board, led by the Chairman, provides entrepreneurial leadership of the Company 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 Company and delivery of sustainable value to shareholder. It sets the strategy and risk appetite for the Company and approves capital and operating plans presented by management for the achievement of the strategic objectives it has set.
- 1.2 The key responsibilities of the Board include:
- (i) reviewing and overseeing the objectives as set by the Global Insurance Exco for the Company and the strategies for achieving those objectives;
  - (ii) risk appetite and governance;
  - (iii) setting corporate values and standards;
  - (iv) ensuring a suitable and transparent corporate structure; and
  - (v) ensuring an appropriate degree of transparency in respect of the structure, operation and risk management of the Company by ensuring appropriate procedures for monitoring and controlling operations are in place.
- 1.3 In discharging its responsibilities, the Board, among other things, has regard to the Monetary Authority of Singapore's ("MAS") Guidelines on Corporate Governance for Banks, Financial Holdings Companies and Direct Insurers and the Insurance (Corporate Governance) Regulations 2013 ("Regulations"), and HSBC's ("HSBC Holdings plc") Code of Corporate Governance, as revised from time to time. These Guidelines, Codes and Regulations require the directors to objectively discharge their duties and responsibilities at all times as fiduciaries in the interests of the Company.
- 1.4 The Board has delegated authority to the Chief Executive Officer ("CEO") in relation to the management and day to day running of all business and support functions of the Company within certain financial limits and in accordance with certain directions, with the power to sub-delegate. All other matters are reserved to the Board.

The following matters specifically require Board approval :

- (i) reviewing strategic plans, operating plans, risk appetite and performance targets for the Company;
- (ii) the establishment of effective procedures for monitoring and control of operations including internal procedures for audit, risk and compliance;
- (iii) 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;
- (iv) appointments to the positions of Chairman, Director including independent directors, CEO, Chief Financial Officer ("CFO"),

- Chief Risk Officer (“CRO”), Appointed Actuary and Company Secretary; and
- (v) 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 both geographically and by sector.

#### 1.5 Board Committees

Separate Board Committees have not been formed. The Board performs the role of the Nominating, Remuneration, Audit and Risk Committees.

The Board meets at least four times a year to review business performance and key activities, as well as to provide policies. Ad-hoc Board Meetings will be convened if warranted.

The number of meetings of the Board held in 2015 and the attendance of the Directors at these meetings are tabulated below.

#### ***Number of meetings of the Board held in 2015 and attendance***

	<b>Board meetings held in 2015</b>
Number of meetings	<b>4</b>
<b>Directors</b>	
* Mr Guy Daniel Harvey-Samuel	3/4
* Mr Ian St John Martin	4/4
* Mr Marcelo Gomes Teixeira	3/3
* Mr Alvinos Christos Micromatis	3/4
* Mr Tan Swee Beng Kelvin	0/1
* Mr Matthew Steven Colebrook	4/4

\* Note:

Mr Guy Daniel Harvey-Samuel was absent on 1 occasion due to a meeting clash with HBAP CEO (20 March 2015).

Mr Marcelo Gomes Teixeira resigned as Company Director on 3 December 2015.

Mr Alvinos Christos Micromatis was absent on 1 occasion due to core leave (8 July 2015).

Mr Tan Swee Beng Kelvin was absent on 1 occasion due to conflicting meeting (20 March 2015) and he resigned as Company director on 30 Jun 2015.

Mr Matthew Steven Colebrook resigned as Company Director on 11 December 2015.

## 1.6 (i) EXCO

This is a management committee that is accountable to the INSN Board of Directors for the management, overall delivery of INSN strategy and risk control of the insurance business. It covers all operations, strategic change, business performance, risk and compliance, HR matters of the Company.

### (ii) EXCO Membership

Member	Audit	Global Standards	Operation	Strategy Change Update	Finance	Wealth/ RBWM	Distribution Support	Retail Insurance	Transformation & Change Delivery	Business Performance Management	Risk	Compliance	Human Resource
INSN CEO (Chairman)	D	D	D	ED	D	D	D	D	D	D	D	D	D
Deputy CEO & Head of Wealth	D	D	D	E	D	ED	D	D	D	D	D	D	D
CRO & AA	D	D	D	E	D						ED		
CFO	D	D	D	E	ED								
COO	ED	ED	ED	E									
SVP & Head, Transformation/ Change Delivery	D	D		E					ED				
SVP, FCC & RC	D	D		E								ED	
SVP, Distribution Support	D	D		E			ED						
SVP, Retail Insurance	D	D		E				ED					
SVP, Business Performance Management	D	D		E					ED				
SVP, Human Resources (RBWM)	D	D		E									ED

*E = Area of Expertise, D = Area of Individual Authority*

### (iii) Exco – Key Terms of Reference (“TOR”) Responsibilities

The TOR for the EXCO contains the decision areas and key responsibilities of EXCO.

## 1.7 Induction

All new directors are given an induction on their general duties and liabilities as directors. All directors are also issued the terms of reference of the Board and the Corporate Governance Code for HSBC Group (“HSBC Holdings plc and its

subsidiaries”), which cover the HSBC Group’s internal policies on corporate governance activities.

1.8 Continuous Training

All directors on the Board are employees of the HSBC Group. As employees, they are required to undergo mandatory training on a wide range of topics relating to the governance, business activities and operations of the HSBC Group. Mandatory training covers Global Standards, HSBC Values, and Financial Crime Compliance Sanctions, Bribery, Corruption and Money-Laundering, and treating customers fairly. As HSBC Group employees, they also have access to continuous professional development programmes to ensure that they are able to perform their roles as stewards of the Company effectively. The Directors are also regularly updated and/or briefed on the Company’s businesses and the regulatory changes on industry specific issues during quarterly board meetings. In 2015, the Directors were briefed on the Companies Amendments (2014) Act amendments and how it impacted their obligations as directors. These updates are usually in written form and presented by senior management of the Company. The Board has not conducted an assessment on the effectiveness of these programmes as these are all HSBC Group training programmes.

1.9 HSBC Values

As a wholly-owned subsidiary of HSBC through a chain of intermediaries companies, the Company 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 Company are required to undergo training on the HSBC Values and such values are inculcated throughout the Company 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.

1.10 Business conduct by Staff

At every Board meeting, a report is tabled on (i) customer complaints on misconduct of representatives, (ii) Balanced Score Card grade of Representative Notification Framework (RNF) representatives, and (iii) trend analysis of customer complaints. HSBC Group has in place a Fair Dealing Policy, which includes complaint handling procedures to ensure that all complaints are dealt with and are communicated to customers.

1.11 Board’s responsibility for appointment of senior management

- (i) The following key executive person appointments are approved at Board level:-
  - (a) the CEO and the deputy chief executive;
  - (b) the CFO;
  - (c) the CRO;
  - (d) the appointed actuary;
  - (e) company secretary.

- (ii) The CEO informs the Board on his other proposed senior appointments.

(iii) The Board has approved the TOR of EXCO, and that the Board has approved a Delegation of Authority to the CEO.

(iv) The reasons for the removal of the CEO, CRO, CFO and the Appointed Actuary are reviewed at the Board.

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## **2. BOARD COMPOSITION AND GUIDANCE**

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- 2.1 The Board comprises a balance of executive and non-executive Directors and that no individual or small group of individuals can dominate the Board's decision-making. However, there are no independent Directors on the Board, as all Directors on the Board are HSBC Group employees. The Regulations require that the Board must consist of one third independent Directors before the Annual General Meeting ("AGM") 2016. The Company will comply by the deadline.
- 2.2 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 Company pursues (or intends to pursue) and the associated risks in order to ensure effective governance and oversight.
- 2.3 The Company 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.
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## **3. CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

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- 3.1 The role of the Chairman is to provide leadership to the Board and to be responsible for the overall effective functioning of the Board. The Chairman also ensures that decisions of the Board are taken on a sound and well-informed basis and in the best interest of the Company. To this end, the Chairman, among other things:
- (i) sets the agenda for board meetings and ensures that all Directors are given an opportunity to include matters on the agenda;
  - (ii) ensures that Directors receive accurate, timely and clear information for Board meetings;
  - (iii) encourages and promotes open and critical discussion;
  - (iv) ensures that any concerns and dissenting views are expressed and discussed within the decision making process;
  - (v) encourages constructive relations and effective communication between the Board and management, and between the executive Directors and non-executive Directors; and
  - (vi) ensures that Directors, especially non-executive Directors, have access to independent professional advice at the Company's

expense where they judge it necessary to discharge their responsibilities.

- 3.2 The CEO is responsible for:
- (i) ensuring implementation of the strategy and policy as established by the Board; and
  - (ii) managing and day-to-day running of the Singapore operations.
- 3.3 The Chairman is not an executive director nor is he a member of the immediate family of the principal officer of the Company.

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#### 4. BOARD MEMBERSHIP

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##### Directors' Key Information

4.1 Guy Daniel Harvey-Samuel (GHS)  
Chairman/Non-Executive Director,

Guy Harvey-Samuel is Group General Manager, Chief Executive Officer of Singapore, The Hongkong and Shanghai Banking Corporation Limited (HBAP). A citizen of Singapore, Guy is a member of HBAP's Executive Committee and has direct responsibility for all HSBC operations based in Singapore. He is also a member of the Advisory Board of the National Youth Achievement Award Council and sits on the National Arts Council Advisory Board, the Jurong Town Corporation ("JTC") Board, Surbana Jurong Private Limited Board and the National Parks Board.

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 including Indonesia, Vietnam and Thailand.

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.

He is married with two sons.

4.2 Alvinos Micromatis (AM)  
Non-Executive Director,

Alvinos was appointed as a Non-Executive Director of the Company on 9 July 2012. He is also a Director of HSBC Insurance (Asia-Pacific) Holdings Limited. He is currently Director, Business Management for insurance, leading a growth initiative for HSBC in Asia.

Alvinos joined the HSBC Group in 2007 in London and held several positions

within HSBC's Insurance business at the Group and in Hong Kong. He was Chief Financial Officer in the Hong Kong Insurance business and later took on extended finance responsibilities for HSBC's Insurance businesses in Asia, before moving into business management roles.

Other than his insurance experience in the HSBC Group, Alvinos gained experience in insurance having worked for PricewaterhouseCoopers in the United Kingdom for several years, where he was exposed to a variety of insurance clients. He is a Chartered Accountant and holds a Bachelor's degree in Engineering from the University of Liverpool.

4.3 Ian St John Martin (IM)  
Chief Executive Officer and Executive Director.

Ian was appointed as Chief Executive Officer of HSBC Insurance (Singapore) Pte Limited since 11 July 2014. The CEO role covers all operations, finance, distribution management and third-party business under his responsibility. Ian also sits on the Board of the Singapore HSBC senior management team, and the Board of INAH.

Prior to joining HSBC Insurance Singapore, Ian joined HSBC Insurance UK since 2005 as Head of the Retirement Business and went on to hold various positions until he was appointed as Head of Insurance UK, CEO HSBC Life from 2012-2014.

As a UK qualified Actuary, Ian has held senior roles in actuarial, product development, marketing, communications, distribution and corporate transactions.

Ian is a trustee and Chair of The Quest School for children with autism and in his spare time enjoys playing sport and music.

4.4 Responsibilities of the Board on nominations or appointments

The Board is responsible for identifying the candidates and reviewing all nominations for the appointments of (i) each director, (ii) the CEO and the deputy CEO and (iii) any actuary appointed with the approval of MAS. The criteria to be 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.

4.5 Determination of independence by the Board

Prior to the appointment of a Director, the Board, using the criteria set out in Regulation 5 or 6, and where applicable, Regulation 23, determines:-

- (a) whether he is independent from management and business relationships

- with the Company ; and
- (b) whether he is independent from any substantial shareholder.

Prior to every AGM of the Company, the Board determines or reviews and assesses, as the case may be:

- (i) whether each existing Director is independent from management and business relationship with the Company;
- (ii) whether each existing Director is independent from any substantial shareholder, and
- (iii) whether each existing Director remains qualified for the office using the criteria as set out in Regulation 21(3).

#### 4.6 Independence of directors (Corporate Governance Regulation 22(2))

The Board, having reviewed the independence of GHS, IM and AM supplemented by their responses to the independence questionnaires continue in their assessment that there was no change of the independence status of the directors, namely:

- (a) IM is not independent as he is the CEO.
- (b) GHS is independent from management because he is not involved in the day-to-day running of the business, but he is not independent of shareholder.
- (c) AM is independent from management because he is not involved in the day-to-day running of the business, but he is not independent of shareholder.

#### 4.7 Multiple Board representations

There are no separate guidelines established to address the case of multiple board representations, nor has a limit been set on the maximum number of listed company board representations as all Directors are HSBC Group employees and are subject to HSBC Group requirements on outside directorships. The HSBC Code requires all Directors to allocate sufficient time to discharge their responsibilities to the Company effectively, and to avoid conflicts of interest. In any event, no Director holds a listed company directorship.

#### 4.8 Process for appointment of New Directors

In appointing new Directors, the Board evaluates the balance of skills, knowledge and experience of the Board and identifies the roles and capabilities required at any time, taking into account the environment in which the Company operates, and the realities of a wholly-owned subsidiary of the HSBC Group.

#### 4.9 Search process for Independent Directors (INED)

The Company had appointed an external search firm to search for independent directors. The search firm had provided a list of potential candidates for consideration. A skills matrix had been developed to assess the candidates. Based on the skills matrix, the candidates were shortlisted. The CEO and Chairman conducted interviews with the shortlisted candidates. The Board then evaluated the suitability and competency of the shortlisted candidates and decided on the final candidates to be appointed as INED.

#### 4.10 Resignations of key appointment holders

During 2015, the following key appointment holders resigned, namely:

- (i) the resignation of Director, Colebrook, Matthew Steven
- (ii) the resignation of Director, Gomes Teixeira, Marcelo
- (iii) the resignation of Director, Tan Swee Beng Kelvin

All resignations and reasons for the resignations were notified to MAS. Colebrook, Matthew Steven and Tan Swee Beng Kelvin resigned in order to take up another role within the HSBC Group. Gomes Teixeira, Marcelo resigned to join another insurance company.

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## 5. BOARD PERFORMANCE

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- 5.1 The Board has not undertaken a formal assessment of its performance as it is comprised entirely of HSBC Group employees and such employees are serving as Directors by virtue of their scope of employment responsibilities, which includes stewardship of the Company. They are thus subject to be assessed in their role as stewards under the HSBC Group's performance management system and reward framework. The Board is of the view that a separate board performance evaluation in such circumstances would not be meaningful. The Board will institute an annual board performance review one year after independent directors are appointed in order to provide a meaningful basis for evaluation. However, under Regulation 22(2)(b), the Board has performed an assessment on each existing Director to see if he remains qualified for the office using the criteria as set out in Regulation 21(3).
- 5.2 Under the HSBC Code, all Directors should 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.

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## 6. ACCESS TO INFORMATION

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- 6.1 The Board has separate and independent access to 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 quarterly internal financial statements, with material variances between plan and actuals discussed. Information provided on an ongoing basis at board meetings includes the investment update, the financial and business updates, and compliance and regulatory update. Senior management executives who can provide additional information or provide clarifications to questions raised are usually present at the meeting during discussion on such matters.

- 6.2 Directors have separate and independent access to the Company Secretary.
- 6.3 The Company Secretary attends all Board meetings and prepares minutes of Board proceedings. She assists the Chairman to ensure that appropriate Board procedures are followed and that applicable regulations are complied with. Under the direction of the Chairman she assists with the information flows between the Board and management. The Company Secretary is responsible for the preparation of the Corporate Governance Report, which is tabled to the Board for approval. The appointment and removal of the Company Secretary is a matter to be considered by the Board as a whole.
- 6.4 There is a procedure for directors, either individually or as a group, in furtherance of their duties, to take independent professional advice, if necessary, at the Company's expense.
- 6.5 Minutes of the EXCO and the Risk Management Committee that is formed under the authority of EXCO are tabled to the Board for its information.
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## **7. REMUNERATION MATTERS**

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- 7.1 The Board is responsible for :
- (a) recommending a framework for determining the remuneration of the directors;
  - (b) recommending a framework for determining the remuneration of the executive officers of the Company which shall include the following elements and factors in the design and operation of the framework:
    - (i) the remuneration package of each executive officer of the Company -
      - (A) aligns to the specific job function undertaken by the executive officer and, where the executive officer undertakes any of the Company's control job functions, the remuneration package of that executive officer is being determined independently of the business functions of the Company;
      - (B) takes into account input from the Company's control job functions as may be relevant to the specific job function undertaken by the executive officer;
      - (C) aligns with the risks that the Company undertakes in its business that is relevant to the specific job function undertaken by the executive officer;
      - (D) sensitive to the time horizon of risks that the Company is exposed to, which includes ensuring that variable compensation payments shall not be finalised over short periods of time when risks are realised over long periods of time;

- (E) in relation to the quantum of bonus payable to the executive officer, be linked to his personal performance, the performance of his specific job function as a whole and the overall performance of the Company; and
      - (F) in relation to the rationale for the mix of cash, equity and other forms of incentives, be justified; and
    - (ii) the size of the bonus pool of the Company shall be linked to the overall performance of the Company.
  - (c) recommending the remuneration of each director and executive officer of the Company based on the frameworks; and
  - (d) reviewing, at least once in each year, the remuneration practices of Company to ensure that they are aligned with the recommendations.
- 7.2 The Human Resources Department is responsible for maintaining records of all papers, minutes, proceedings, discussions on key deliberations and decisions of the Board on remuneration matters.
- 7.3 The Company adopts the Principles for Sound Compensation Practices and Implementation Standards issued by Financial Stability Board.

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## **8. LEVEL AND MIX OF REMUNERATION**

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- 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 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.
- 8.3 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.
- 8.4 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 independent of the performance of the business areas they control.
- 8.5 Individual performance is assessed with reference to clear and relevant objectives set within a performance scorecard framework. Reward is delivered via a combination of fixed plus variable pay with variable pay (namely annual

award and the long term award) differentiated by performance and adherence to HSBC Values. Taking into account the expected value of awards, the performance related elements of pay make up a considerable proportion of the total remuneration package for senior staff, whilst maintaining an appropriate balance between fixed and variable elements. Remuneration is structured to provide an opportunity for top quartile total compensation for higher levels of performance.

- 8.6 A proportion of variable pay awards above certain thresholds is required to be deferred into HSBC shares to tie recipients to the future performance of the Group and align the relationship between risk and reward.
- 8.7 Risk alignment of our remuneration structure is achieved through the following measures:
- (a) Risk and compliance is a critical part of the assessment process in determining the performance of all employees, especially senior executives and material risk takers. All employees are required to have risk measures in their performance scorecards, which ensure that their individual remuneration has been appropriately assessed with regard to risk.
  - (b) Adherence to HSBC values is a pre-requisite for any employee to be considered for variable pay. HSBC values are key to the running of a sound, sustainable bank. Employees have a separate HSBC values rating which directly influences their overall performance rating for their variable pay determinations.
  - (c) For our most senior employees, the greater part of their reward is deferred and thereby subject to malus, which allows the awards to be reduced or cancelled if warranted.
  - (d) 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, including adjustments and malus of unvested awards granted in prior years.
  - (e) All variable pay awards made to identified staff and material risk takers for the performance year in which they have been identified as MRTs are also subject to the Group Clawback Policy in accordance with the requirements in the Prudential Regulation Authority's Remuneration Code.

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## 9. DISCLOSURE ON REMUNERATION

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### **Directors' and Top Five Key Executives Remuneration**

- 9.1 Since the Company is ultimately a wholly-owned subsidiary of HSBC, there is limited added value to provide disclosures on the remuneration of senior

management staff other than what has already been disclosed in the financial statements, the Company will not be complying in full with principle 9 of the CG Guidelines apart from what has been disclosed.

- 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 Company. Such disclosure would be disadvantageous to the Company in relation to its competitors and may affect adversely impact the cohesion and spirit of team work prevailing amongst the employees of the Company, given the highly competitive conditions in the financial industry where poaching of executives is common place.
- 9.3 Directors who are HSBC Group employees do not receive any remuneration for their services as directors in the Company. There are no Directors who are non HSBC Group employees.

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## **10. ACCOUNTABILITY AND AUDIT**

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- 10.1 Being a wholly owned company, the Company is accountable to its immediate and ultimate holding companies.
- 10.2 The Board reviews operational and regulatory compliance reports from management to ensure compliance with all Group's operational practices and procedures and relevant regulatory requirements.
- 10.3 Board members receive quarterly financial statements, operational and other reports from management containing analysis and explanations of variances against budget to understand the Company's financial and operational performance and prospects.
- 10.4 The Board is responsible for the adequacy of the external and internal audit functions of the Company, including reviewing the scope and results of audits carried out in respect of the operations of the Company and the independence and objectivity of the Company's external auditors.

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## **11. RISK MANAGEMENT AND INTERNAL CONTROLS**

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- 11.1 The Directors are responsible for internal control in the Company and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposal; for maintaining proper accounting records; and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage and mitigate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud.

11.2 As a requirement under the Group annual CEO Attestation process, the CEO of the Company confirms that the internal control framework of the Company has been assessed and any significant open issues have been identified, with action plans in place to address weaknesses.

11.3 In addition, the CEO and CFO of the Company issue an Internal Control Certificate ("ICC") to the CEO of the immediate holding company and the Regional Insurance Head of Finance Control. The ICC confirms that, in respect of internal controls over the financial reporting,

- (i) the Company's internal financial control system has been designed and operated such that there is a less than reasonable possibility of a material misstatement in its financial reporting remaining undetected;
- (ii) the Company complies with the requirements of HSBC Group's policies insofar as it is necessary to support Management's assessment of Internal Control over Financial Reporting;
- (iii) an assessment of the effectiveness of the Company's internal control over financial reporting has been completed in a process which the CEO and CFO have supervised and reviewed;
- (iv) based on the assessment performed, the CEO and CFO are satisfied with the conclusion that the Company's internal control over financial reporting was effective.

11.4 The CEO provides regular updates to the Board on the following areas:

- (i) Regulatory Compliance & Financial Crime Compliance matters;
- (ii) Information technology controls;
- (iii) Operational matters;
- (iv) Risk Management systems.

11.5 Board's statement on internal controls

Based on the internal controls established and maintained by the HSBC Group, work performed by the internal and external auditors, the annual CEO Attestation, the ICC issued by the CEO and CFO, the Board 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 2015, to address the risks which the Company considers relevant and material to its operations. The system of internal controls provides reasonable, but not absolute, assurance that the Company 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 judgement in decision-making, human error, losses, fraud and other irregularities.

11.6 Risk Management system

The Board also oversees:

- (i) the establishment and the operation of an independent risk management system for managing risks on an enterprise-wide basis; and
- (ii) the adequacy of the risk management function of the Company, including ensuring that it is sufficiently resourced to monitor risk by the various risk

categories and that it has appropriate independent reporting lines.

11.7 Risk Appetite Statement and Risk Reports

Board approves, on an annual basis, the risk appetite statement, which describes the types and levels of risk that the Company is prepared to accept in executing its strategy, and the credit and market risk mandate, which are key components of the risk management framework. At every meeting of the Board, the CRO will give an update on the risk dashboard, the regulatory ratios, the appointed actuary update, the solvency stress test results, and the results of any stress testing conducted in accordance with MAS requirements.

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**12. INTERNAL AUDIT**

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12.1 Whistle-blowing policy

The Company'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.

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)

12.2 The Insurance & Pensions Audit ('Audit') team is the main internal audit function for the Company. During the year 2015, the audit team conducted a Processes and Controls audit to assess the design and operating effectiveness of controls in the areas of strategy, financial planning, solvency and capital management, investment management and new product development. The audit findings and Management's responses and actions were discussed in Executive Committee meetings and Risk Management Committee meetings.

12.3 Reporting line of Internal Audit

The Insurance & Pensions Audit team reports to the Head of Global Internal Audit for Retail Banking & Wealth Management, Global Private Bank, Latin America and Canada, who is a member of the Global Internal Audit Executive Committee ("GBL INA EXCO"). 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 is independent of the Company's management and has appropriate standing within the Company.

12.4 The Board met with the external auditors to discuss their audit of financial year

ended 31 December 2015, and reviewed the independence and objectivity of the Company's external auditors.

12.5 As the Company is ultimately a wholly-owned subsidiary of the HSBC Group and is audited by the Insurance & Pensions Audit team under Global Internal Audit, the Company will not be complying in full with principle 12 or 13 of the CG Guidelines apart from what has been disclosed.

12.6 Breakdown of audit and non-audit fees

<u>Fees paid to Auditors</u>	<u>%</u>
Audit Fees paid to the Auditors of the Company	87%
Non-Audit Fees paid to the Auditors of the Company	13%

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### **13. SHAREHOLDER RIGHTS AND COMMUNICATION**

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13.1 The Company is a wholly-owned subsidiary of HSBC Insurance APH. There is constant communication at all levels of the Company with HSBC Insurance APH.

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

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### **14. CONDUCT OF SHAREHOLDER MEETINGS**

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14.1 HSBC Insurance APH receives the Company'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.

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### **15. RELATED PARTY TRANSACTIONS**

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15.1 Policies on material related party transactions are established at HSBC Group level for all HSBC entities and the Company also complies with the local regulatory requirements. Material related party transactions are disclosed in the notes to the Company's financial statements for the financial year ended 31 December 2015 which can be found from the Company's corporate website.