

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

Corporate Governance Report 2017

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CONTENT PAGE

1.	THE BOARD'S CONDUCT OF AFFAIRS	3
2.	BOARD COMPOSITION AND GUIDANCE.....	6
3.	CHAIRMAN AND CHIEF EXECUTIVE OFFICER	6
4.	BOARD MEMBERSHIP	7
5.	BOARD PERFORMANCE	11
6.	ACCESS TO INFORMATION	11
7.	REMUNERATION MATTERS.....	12
8.	LEVEL AND MIX OF REMUNERATION	13
9.	DISCLOSURE ON REMUNERATION.....	16
10.	ACCOUNTABILITY AND AUDIT	16
11.	RISK MANAGEMENT AND INTERNAL CONTROLS.....	17
12.	AUDIT COMMITTEE	18
13.	INTERNAL AUDIT	21
13.	SHAREHOLDER RIGHTS AND COMMUNICATION	21
14.	CONDUCT OF SHAREHOLDER MEETINGS	21
15.	RELATED PARTY TRANSACTIONS	21

BOARD MATTERS

1. THE BOARD'S CONDUCT OF AFFAIRS

- 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 sole shareholder for the Company and the strategies for achieving those objectives;
 - (ii) risk appetite and governance including financial crime risk and conduct risk;
 - (iii) setting corporate culture, 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 ("CG Regulations") and Insurance Act, as revised from time to time. These Guidelines 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

The Board performs the role of the Nominating and Risk Committees. In addition to these Committees, the Board has on 1 April 2017 established a separate Audit Committee (AC), which has been constituted with a Board-approved written terms of reference.

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. AC meetings are held before the Board meetings.

The number of meetings of the Board and AC held in 2017 and the attendance of the directors at these meetings are tabulated below.

Number of meetings of the Board/Committee held in 2017 and attendance

	Board meetings (includes 1 special meeting)	Audit Committee Meetings
Number of meetings	5	3
Directors		
Anthony William Cripps ¹	3/4	-
Guy Daniel Harvey Samuel ²	1/1	-
Carlos M Vazquez ³	-	-
Ian St John Martin ⁴	5/5	-
Paul Stewart Menzies ⁵	5/5	3/3
Raymond Kwok Chong See ⁶	5/5	3/3
Eric, Jean Marie, Armand Emore ⁷	4/4	3/3

¹ Appointed as Chairman and Director with effect from 1 April 2017.

² Stepped down as Chairman and Director with effect from 31 March 2017.

³ Appointed as Chief Executive Officer (CEO) and Director with effect from 12 March 2018.

⁴ Stepped down as CEO and Director with effect from 12 March 2018.

⁵ Appointed as Independent Director and AC Chairman with effect from 1 April 2017

⁶ Appointed as Independent Director and member of AC with effect from 1 April 2017.

⁷ Appointed as Non-executive Director and member of AC with effect from 1 April 2017.

1.6 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, which covers the HSBC Group's internal policies on corporate governance activities. As part of the induction programme for independent directors, the CEO and senior management brief the independent directors on the Company's principal

activities. The induction programme will be tailored to the specific development needs of the new directors. A Memorandum for directors which contain information of director's duties and responsibilities under the Companies Act and which includes key information on the Company, terms of reference of the Board and Board Committees was issued to the new directors. Directors are also appraised of their specific statutory duties and obligations under the Insurance Act and regulations by the Regulatory Compliance department. A formal appointment letter will be issued to every new independent director.

1.7 Continuous Training

Directors 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 Anti-money laundering, Sanctions, Bribery and Corruption, Embedding good conduct, Protecting our information and Rebuilding Trust in Banking. 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. These updates are usually in written form and presented by senior management of the Company. Directors may also attend appropriate courses, conferences and seminars conducted by professional bodies. During the year, directors were given training and briefings on the use of the cyber risk and IFRS 9 training.

1.8 HSBC Values

As a wholly-owned subsidiary of HSBC through a chain of intermediaries, the Company has adopted the HSBC Values, which are aimed at promoting and maintaining high levels of professional conduct of the business. These values emphasize, 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.

1.9 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.

1.10 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 CEO;
 - (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 reasons for the removal of the CEO, CRO, CFO, Company Secretary and the appointed actuary are reviewed at the Board.
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2. BOARD COMPOSITION AND GUIDANCE

- 2.1 The Board comprises a balance of executive, non-executive and independent directors and that no individual or small group of individuals can dominate the Board's decision-making. The Company is compliant with the Insurance Corporate Governance Regulations which require that independent directors make up at least one-third of the Board.
 - 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.
 - 2.4 A 3rd Board member, Eric Emore was invited to join the Board and Audit Committee as INSN became Tier 1 from 1 April 2017.
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3. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

- 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) the management and day-to-day running of the Singapore business 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

Directors' Key Information

4.1 Mr Anthony William Cripps
Chairman/ Director

Mr Anthony William Cripps was first appointed to the Board as non-independent Director on 1 April 2017.

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

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

Academic and Professional Qualifications

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

4.2 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.

Ian resigned as the CEO & Director of INSN with effect from 12th March 2018.

4.3 Carlos M Vazquez
Chief Executive Officer and Executive Director.

Carlos was appointed as Chief Executive Officer of HSBC Insurance (Singapore) Pte Limited on 12 March 2018. The CEO role covers all operations, finance, distribution management and third-party business under his responsibility.

Prior to joining HSBC Insurance Singapore, Carlos was from Manulife (Singapore) Pte. Ltd where, as Chief Product Officer, he oversaw product management and pricing. He also previously served as the Chief Product Officer for Manulife Indonesia, where he led the launch of many local product innovations. Carlos is a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries.

4.4 Paul Stewart Menzies (PM)
Independent Director and Audit Committee Chairman

Paul was appointed an Independent Director on 3 June 2016.

Before joining the Board, he was Managing Director for the Insurance Business in Hong Kong for HSBC Insurance (Asia) Ltd, where he managed the business as part of the overall retail and wealth management strategy of the Company. Prior to this, he was Head of Insurance, North Asia & Regional Head of Strategic Development where he was responsible for the Taiwan and Korea businesses and the regional strategic development of the Asia business. He had been appointed Director in several insurance companies such as HSBC Life Insurance

Co Ltd, HSBC Life (International) Ltd and HANA HSBC Ins Co Ltd among others. Paul left HSBC Group's employment in 2014. The Board has assessed his independence and concluded that he is independent from management relationship, business relationship and substantial shareholder. As Paul had left HSBC Group's employment in April 2014, Paul's independence from management was specially considered by the Board. The Board concluded that Paul was independent from management because he last worked with a related company in Hong Kong. His management responsibilities were entirely separate from the business and operations in Singapore. Since leaving, he has had no business or management relationship with the Group. The Board also considered whether his holdings of HSBC shares given to him as part of share based compensation would undermine his independence from the shareholder, and concluded that the holdings were not material enough to affect his independence from the shareholder.

Paul graduated from Eccles Hall & Bromley Technical High and later on obtained a certificate through the Wharton Executive Development Program in 2002.

4.5 Raymond Kwok Chong See (RK)
Independent Director and Audit Committee member

Raymond was appointed an Independent Director on 3 June 2016.

He is currently the Chairman and MD of Kwok Group LLP, a consultancy and investment holding Company. He was with UOB Life Assurance for 17 years where he helped build the business from scratch to \$2.5 billion Asset Under Management. Prior to this, he was with Prudential Assurance Co Ltd for 12 years where his last role was Deputy Head of Agency.

Raymond holds a Bachelor of Science (Honours) in Mathematics with the Imperial College, London and is an Associate with the Institute of Actuaries, London. He is also a LIMRA Leadership Institute Fellow.

4.6 Eric, Jean-Marie, Armand Emore
Director and Audit Committee member

Eric was appointed a Board Director and Audit Committee member on 1 April 2017 when INSN became Tier 1 insurer. Eric is currently the CEO of HSBC Insurance France. Eric holds a Master of Science in Finance from ESSEC and is a member of the French Fellowship of Actuary.

4.7 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;
- (iii) CRO;
- (iv) CFO; and
- (v) any actuary appointed.

The criteria to be applied in identifying a candidate or reviewing a nomination includes, inter alia:

- (a) that the appointment will not result in a non-compliance with the requirements for Board composition under the Regulations; and
- (b) the candidate or nominee is a fit and proper person for the office and is qualified for the office, taking into account the candidate's or nominee's track record, age, experience, capabilities, skills and such other relevant factors as may be determined by the Board. The Board has adopted the following factors in general namely: (i) honesty, integrity and reputation; (ii) competence and capability; and (iii) financial soundness.

4.8 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, determines:-

- (i) whether he is independent from management and business relationships with the Company ; and
- (ii) 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.

4.9 Independence of directors

The Board, having reviewed the independence of TC, IM, CV, EE, PM and RK supplemented by their responses to the independence questionnaires have concluded the independence status of the directors:

- (i) IM and CV are not independent as they are the CEO of the Company.
- (ii) TC is independent from management because he is not involved in the day-to-day running of the business, but he is not independent from business relationships and shareholder.
- (iii) PM is independent from management and business relationships because he is not an employee. He is also independent from shareholder.
- (iv) RK is independent from management and business relationships because he is not an employee. He is also independent from shareholder.
- (v) EE is independent from management and business relationships but he is not independent from shareholder as he is a HSBC employee.

4.10 Multiple Board representations

Directors are expected to set aside adequate time for their oversight of matters relating to the Company. Directors who are HSBC Group employees are also subject to HSBC Group requirements on outside directorships. The HSBC Group's internal policies require all directors to allocate sufficient time to discharge their responsibilities to the Company effectively, and to avoid conflicts

of interest. To avoid conflicts of interest, all directors are required to obtain pre-clearance of any external appointments from the Board. The Board has also established a limit on listed companies' directorships. Generally, a Director who has full-time employment in any organization shall have appointments in no more than three listed companies, while a directors who does not have any full-time employment shall have appointments in no more than six listed companies.

4.11 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. MAS approvals where required was also obtained.

4.12 Resignations of key appointment holders

During 2017, Guy Harvey Samuel resigned as a Chairman and director as he had left the employment of the HSBC Group. All resignations and reasons for the resignations were notified to MAS. IM has resigned as CEO and Director of INSN on 12 March 2018.

5. BOARD PERFORMANCE

- 5.1 The Board had commenced an annual performance evaluation to assess the effectiveness of the Board in 2017. The results of the Board evaluation were presented to the Board on 7 March 2017 Board meeting.
- 5.2 The Board performs an assessment on each Director prior to every AGM to see if he remains qualified for office.
- 5.3 Under the HSBC Group's internal policies, 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.

6. ACCESS TO INFORMATION

- 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 include 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 updates on investments, finance, business, risk and regulatory matters. 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, Internal and External auditors.
- 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, and for facilitating the orientation of new directors and professional development of directors as required. 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 are tabled to the Board for its information.

7. REMUNERATION MATTERS

- 7.1 The Board is responsible for :
 - (i) recommending a framework for determining the remuneration of the directors;
 - (ii) 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:
 - (a) 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

(b) the size of the bonus pool of the Company shall be linked to the overall performance of the Company.

- (iii) recommending the remuneration of each director and executive officer of the Company based on the frameworks; and
- (iv) 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 the Financial Stability Board.

8. LEVEL AND MIX OF REMUNERATION

8.1 Remuneration is aligned to the HSBC Group’s remuneration policy and practices which promote sound and effective risk management and support our business objectives.

8.2 Our remuneration strategy is designed to reward competitively the achievement of long-term sustainable performance and attract and motivate the very best people who are committed to maintaining a long-term career while performing their role in the long-term interests of our stakeholders.

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

Our remuneration strategy is delivered through HSBC’s reward package, consisting of five key elements:

Key elements	Purpose
Fixed pay	<ul style="list-style-type: none"> • Attract and retain employees by paying market competitive pay for the roles, skills and experience required for the business • This may include salary, fixed pay allowance, cash in lieu of pension and other cash allowances in accordance with local market practices

	<ul style="list-style-type: none"> • These payments are fixed and do not vary with performance
Benefits	<ul style="list-style-type: none"> • Ensure market competitiveness and provide benefits in accordance with local market practices • This may include, but not limited to, the provision of pensions, medical insurance, life insurance, health assessment and relocation allowances
Annual Incentives	<ul style="list-style-type: none"> • Drive and reward performance based on annual financial and non-financial measures consistent with the medium to long-term strategy, shareholder interests and adherence to HSBC values • Awards vary with performance achievement and we have the discretion to assess the extent to which performance has been achieved • Awards can be in the form of cash and/or shares. A portion of the annual incentive award may be deferred and vests over a period of three years, five years or seven years.
Long-term incentive awards	<ul style="list-style-type: none"> • Incentivize sustainable long-term performance through the use of both pre- and post-grant measurement measures • Awards are subject to malus and claw back and we have the discretion to assess the extent to which performance has been achieved • Awards will be in shares and subject to a three year performance period. At the end of the performance period, the awards that vest will be dependent on the outcome of the performance condition. The first vesting will be in five equal annual installments with the first vesting occurring on the third anniversary of the grant date and the final vesting occurring on the seventh anniversary of the grant.
Shareholding requirement	<ul style="list-style-type: none"> • Align with shareholders' interests through a shareholding requirement during their employment with HSBC • All members of the senior management team are subject to this requirement

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

8.4 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.

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

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

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

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

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

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

9. DISCLOSURE ON 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.
- 9.4 There are no HSBC employees who are immediate family members of a director or the CEO.
- 9.5 The independent directors are paid director's fees of S\$85,000 per annum. Audit Chairman and Audit Committee member are paid S\$50,000 and S\$30,000 per annum respectively. Eric Emore does not receive Audit Committee member fees as he is a staff director. The Company does not grant share based compensation to the independent directors.

10. ACCOUNTABILITY AND AUDIT

- 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 and Audit Committee 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 Audit Committee 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.

11. RISK MANAGEMENT AND INTERNAL CONTROLS

- 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 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.
- 11.4 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, and the annual CEO Attestation, the Board is of the opinion that the system of internal controls, including financial, operational, compliance and information technology controls and risk management systems, were adequate as at 31 December 2017, 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 judgment in decision-making, human error, losses, fraud and other irregularities.
- 11.5 Risk Management Framework
The Board also oversees:
- (i) the establishment and the operation of an independent risk management framework 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.
- 11.6 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.

11.7 Financial Crime Risks: Enterprise Wide Risk Assessment (EWRA)

EWRA is an assessment of the Company’s enterprise-wide money laundering and sanctions risks. The objective is to enable the Company to better understand its overall vulnerabilities to financial crime risks and to form the appropriate strategies to mitigate the identified risks. Areas identified for improvement for the Company during the EWRA exercise are tracked to completion.

11.8 Own Risk and Solvency Assessment (ORSA)

The ORSA is a key risk management process within the overall Enterprise Risk Management (ERM) framework for the Company. The ORSA process makes a forward looking assessment of the overall solvency needs of the Company considering its internal Economic Capital (EC) model as well as its Regulatory Capital (RC) position. In making the assessment it has regard to the Company’s business plan, its overall strategic plan and the Company’s own view of the key risks it is facing, both now and in the future together with the controls / risk mitigations against these risks.

The first ORSA report was approved by the Board at the Q3 2015 Board meeting and submitted to MAS in Q4 2015. The second report was presented and approved by the Board on 16 August 2017.

12. AUDIT COMMITTEE

12.1 The AC comprises 3 Independent Directors:

Name of Director	Board Membership	Audit Committee
Paul Stewart Menzies	Independent, Non-Executive Director	Chairman
Raymond Kwok Chong See	Independent, Non-Executive Director	Member
Eric, Jean Marie, Armand Emore	Non-Executive Director	Member

12.2 The AC performs the functions specified in the Companies Act, CG Guidelines and CG Regulations and is accountable to the Board for oversight of financial reporting. It has explicit authority to investigate matters within its terms of reference and full access to and co-operation by Management and

full discretion to invite any Director or executive officer to attend its meetings. The AC's TOR describes its responsibilities.

- 12.3 In addition to the review of the Company's financial statements, the AC reviews and evaluates with the external auditors and internal auditors, the adequacy and effectiveness of the system of internal controls including financial, operational, compliance and information technology controls, policies and systems. It reviews the independence and objectivity of the external auditors, and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements and reports from the external auditors. When external auditors provide non-audit services to the Company, the AC keeps the nature, extent and costs of such services under review, in accordance with the HSBC Group policy on engagement of the external auditor to supply non-audit services. This is to balance the objectivity of the external auditors against their ability to provide value-for-money services. The AC members keep abreast of changes to accounting standards and issues which have a direct impact on financial statements. The AC also reviews any findings of major investigations of internal control over financial reporting matters as delegated by the Board or on the Committee's initiative and assess management's response.
- 12.4 The AC held three meetings in 2017 since it was set up on 1 April 2017. The AC TOR provides that the AC shall meet with such frequency and at such times as it may determine. It is expected that the AC shall meet at least 4 times each year.
- 12.5 The Company's external auditors have access to and provide regular reports to the AC. The external auditors present their audit plan for the Company and their evaluation of the Company's internal accounting controls to the AC for approval. The status of any corrective action required arising from material findings in the external auditor's report is tracked by the relevant function and reported to the AC at its quarterly meetings until they have been addressed conclusively. The AC meets with the external auditor and with the Head of Internal Audit, in separate sessions and without the presence of Management, at least once a year, to ensure that there are no unresolved issues or concerns. It also undertakes or considers on behalf of the Chairman or the Board such other related tasks or topics as the Chairman or the Board may from time to time entrust it to.
- 12.6 In respect of FY2017, the AC:
- (i) has reviewed the audited financial statements with Management, including discussions on the quality of the accounting principles applied and significant judgments affecting the financial statements,
 - (ii) has discussed with the external auditors the quality of the above principles and judgments; and
 - (iii) believes that the financial statements are fairly presented in conformity with the relevant Singapore Financial Reporting Standards in all material aspects, based on its review and discussions with Management and the external auditors.

12.7 The AC makes recommendations to the Board for the appointment, re-appointment and removal of external auditors; and approves the remuneration and terms of engagement. The Board met with the external auditors to discuss their audit of financial year ended 31 December 2017, and reviewed the independence and objectivity of the Company's external auditors. The AC reviewed the amount of non-audit services provided by the external auditors provided to the Company for 2017 and was satisfied that the nature and extent of such services did not prejudice the external auditor's independence and objectivity. The external auditors has provided a confirmation of their independence to the AC. Based on the confirmation and based on the review, the AC was satisfied that the external auditors can be considered independent. For the financial year ended 31 December 2017, the external auditors were paid the following:

Breakdown of fees paid:

	<u>S\$</u>	<u>%</u>
Statutory audit fees	496	94
Non-audit fees	30	6
Total	526	100

12.8 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. Whistle Blowing Reporting is a standing agenda at AC meetings.

12.9 Employees may report actual or suspected unlawful activity or violation of company policy to:

- (i) the Group Compliance Disclosure Line
- (ii) a Human Resources professional
- (iii) via Human Resources Solutions
- (iv) his/her manager (where appropriate)

12.10 The Audit Committee is required to submit Audit confirmation to HBAP Audit Committee twice a year. The Audit Committee is required to confirm that (i) the financial statements have been prepared in accordance with HSBC Group Accounting Policies; (ii) the internal control systems relating to financial reporting of the Company appear adequate and appropriate for the business; (iii) no significant breaches of law or regulations have been brought to the attention of the Committee other than through reports made via the Compliance or Legal functions; and (iv) there is no relevant audit information of which the Company's auditors are not aware.

13. INTERNAL AUDIT

- 13.1 The Insurance & Pensions Audit ('Audit') team in the HSBC Group is the main internal audit function for the Company. During the year 2017, the audit team conducted a financial crime compliance audit to assess the design and operation of the risk management and control framework over Anti-Money Laundering, Sanctions and Counter-Terrorist Financing. The audit findings and Management's responses and actions were discussed and tracked for completion and remediation in Executive Committee meetings and Risk Management Committee meetings.
- 13.2 Reporting line of Internal Audit
The Insurance & Pensions Audit team reports to the HSBC Head of Global Internal Audit for Retail Banking & Wealth Management, Global Private Bank, Latin America and Canada, who is a member of the HSBC 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 function is independent of the Company's management and has appropriate standing within the Company.

14. SHAREHOLDER RIGHTS AND COMMUNICATION

- 14.1 The Company is a wholly-owned subsidiary of HSBC Insurance (Asia-Pacific) Holdings Limited. There is constant communication at all levels of the Company with the sole shareholder, HSBC Insurance (Asia-Pacific) Holdings Limited.
- 14.2 The Company will pay dividends out of profits available for distribution after taking into account regulatory capital and other business needs.

15. CONDUCT OF SHAREHOLDER MEETINGS

- 15.1 HSBC Insurance (Asia-Pacific) Holdings Limited 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.

16. RELATED PARTY TRANSACTIONS

- 16.1 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 2017 which can be found from the Company's corporate website.