

# HSBC Savings Bank (Philippines), Inc. 2021 Annual Report

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**HSBC**  
Savings Bank



# HSBC Savings Bank at a glance

## HSBC Savings Bank (Philippines) Inc. and HSBC Holdings plc

**HSBC Savings Bank (Philippines), Inc.** (“HBPH” or “the Bank”) is a locally incorporated thrift bank in the Philippines, and a wholly-owned subsidiary of the Philippine branch of The Hongkong and Shanghai Banking Corporation Limited (“HBAP”).

**HSBC Holdings plc** (the “Group” or “HSBC”) is the ultimate parent of HBPH. HSBC is one of the world’s largest banking and financial services organizations. HSBC serves more than 40 million customers through three Global Businesses: Wealth & Personal Banking, Commercial Banking and Global Banking and Markets through a network that covers 64 countries and territories in Europe, Asia, the Middle East and Africa, North America and Latin America.

## Who We Are

In January 2001, the Philippine Branch of HBAP purchased PCI Savings Bank, Inc. and renamed it HSBC Savings Bank (Philippines), Inc. In line with its focus of serving the mass affluent market, HBPH has branches located in Ayala Alabang in Muntinlupa City, Greenhills Shopping Center in San Juan City and Rockwell Power Plant Mall in Makati City.

Despite its three-branch network, HBPH is ranked 12<sup>th</sup> among forty-seven thrift banks in the country in terms of Total Assets based on BSP’s Banking Statistics report on Thrift Banks in the Philippines for the year ended December 31, 2021. [Source: [https://www.bsp.gov.ph/Statistics/Financial Statements/Thrift/assets.aspx](https://www.bsp.gov.ph/Statistics/Financial%20Statements/Thrift/assets.aspx)]

## Our Vision

*To be the country’s savings bank of choice among mass-affluent Filipinos who seek wealth management solutions that would enable them to realize their family’s dreams and aspirations.*

## Our Purpose: Opening up a world of opportunity

Our purpose – ***Opening up a world of opportunity*** – explains why we exist. We’re here to use our unique expertise, capabilities, breadth and perspectives to open up new kinds of opportunities for our customers. We are bringing together the people, ideas and capital that nurture progress and growth, helping to create a better world – for our customers, our people, our investors, our communities and the planet we all share.

## Our Business Model

As a thrift bank, our principal activities focus on building sensible and sustainable relationships with our HSBC Premier and HSBC Personal Banking customers. We do this by providing them a range of personal banking products and services including Philippine Peso, U.S. Dollar, and multi-currency savings, checking and term deposit accounts. We also offer consumer loans such as mortgage, personal and security-backed loans while maintaining the highest standards of managing financial crime risk.

To support our purpose, we empower our people through streamlining initiatives and developing their future skills while relying on HSBC’s investments in technology that places our customers at the center of everything we do.

Supplementing our three-branch network structure, we support clients through a variety of self-service channels including 13 Automated Teller and EasyPay Machines, online and mobile banking and our 24/7 Customer Contact Centre.

## Our Financial Highlights

	For the year ended December 31	
<b>Profitability (in PHP 000)</b>	<b>2021</b>	<b>2020</b>
Total Net Interest Income	260,186	363,477
Total Non-Interest Income	63,978	70,343
Total Non-interest Expenses	286,365	301,974
Pre-provision profit	37,799	131,846
(Reversal of) Provision for Credit Losses	(9,390)	30,203
<b>Net Income Before Income Tax</b>	<b>47,189</b>	<b>101,643</b>

<b>Balance Sheet (in PHP 000)</b>	<b>2021</b>	<b>2020</b>
Liquid Assets	14,717,287	13,444,182
Gross Loans	1,281,875	1,654,873
Total Assets	14,845,714	13,547,571

<b>Other Information (in PHP 000)</b>	<b>2021</b>	<b>2020</b>
Deposits	12,972,882	11,659,926
Total Equity	1,588,837	1,676,428

<b>Selected Ratios</b>	<b>2021</b>	<b>2020</b>
Return on average equity	0.88%	2.49%
Return on average assets	0.10%	0.33%
Capital Adequacy Ratio	60.74%	49.45%

<b>Others (in PHP 000)</b>	<b>2021</b>	<b>2020</b>
Cash dividends declared	70,500	283,000

<b>Full Time Employees (FTE)</b>	<b>2021</b>	<b>2020</b>
<b>Officers</b>	<b>40</b>	<b>37</b>
<b>Rank &amp; File</b>	<b>0</b>	<b>6</b>
<b>Total</b>	<b>40</b>	<b>43</b>



## President and CEO's Message to Stakeholders

Revenue  
**PHP324.2m**  
25% decrease YOY

Profit before tax  
**PHP47.2m**  
54% decrease YOY

Expenses  
**PHP286.4m**  
5% lower than 2020

Reversal of Loan  
Impairment Charges  
**(PHP9.4m)**  
131% improvement YOY

2021 Dividends Paid  
**PHP70.5m**  
25% of 2020 dividend

CAR  
**60.7%**  
vs. 10% requirement

CET 1 ratio  
**60.1%**  
vs. 2020's 48.8%

CER  
**88.3%**  
vs. 2020's 69.9%

Branches  
**3**

ATMs and  
Easy Pay Machines  
**13**

### A Year in Transition.

After a tumultuous year where the entire country was swiftly adjusting to the COVID-19 pandemic, 2021 showed positive signs of recovery thanks to the government's vaccination drive, implementation of community quarantines and various vehicles and initiatives to jumpstart the economy.

In the second quarter of 2021, the country was on its way out of recession with Gross Domestic Product growing by 12%. By the fourth quarter, the country achieved a 7.7% GDP growth, bringing its full year average to 5.6%.

HBPH ended 2021 with PHP324.2 million in revenue, a 25% drop vs. 2020 and a Net Profit Before Tax (PBT) of PHP47.2 million, 54% lower than previous year's PBT of PHP101.6 million. This was primarily due to (1) the continuing low interest rate environment as a result of BSP's initiatives and (2) the 23% YOY reduction in gross loan balances due to the lack of new loans as a result of the bank's tighter risk appetite and operational difficulties amid government restrictions during the year. This was however cushioned by a 131% and 5% decrease in Expected Credit Loss provisions and expenses, respectively.

Total Loans and Receivables shrank by 23% year on year to PHP1.3 billion. One positive effect of the pandemic was our clients' continued infusion of fresh funds. Despite over PHP6 billion of insurance and investments outflows, our deposit balances grew by 11% year on year at PHP13 billion, indicating our client's view of the bank as a safe haven during times of crisis.

All liquidity and capital ratios remained above prescribed limits with Total Capital Adequacy Ratio (CAR) at 60.7%, over 11 percentage points higher than previous year and significantly above regulatory minimum of 10%. Similarly, Common Equity Tier 1 (CET 1) Ratio ended at 60.1% vs. 2020's 48.8%. 2021 dividends paid totaled PHP70.5 million and is 75% lower than the Bank's 2020 dividend.

### Flexibility has been the key.

We truly live in dynamic times! I wish to thank once again the entire HSBC Savings Bank organization for your resilience and dedication in serving our customers throughout the pandemic. Adopting to our new ways of working and the changes in consumer behavior has allowed us to not only continue to service our customers but also position us better for future growth!

### Moving Forward

In 2022, the bank will continue with its strategy of relationship-led personal lending while shifting towards further deepening our relationships with our HSBC Premier customers to meet their growing financial management needs. We'll accomplish this by continuing to improve activity management while further enhancing our digital capabilities to further streamline our operations.

## Our Principles as a Bank

For over 20 years, the bank has maintained an evolving conservative approach to managing risk that is fundamental to delivering our strategic priorities. This helps HBPH protect its customers, lend responsibly and support the sustainable growth of the market we serve.

HBPH uses an enterprise-wide risk management framework at all levels of the organization and across all risk types and is underpinned by our risk culture. The framework fosters continuous monitoring, promotes risk awareness and encourages sound operational and strategic decision making. It also ensures a consistent approach to monitoring, managing and mitigating the risks we accept and incur in our activities. The following sections summarize key aspects of the framework, including governance and structure, our risk management tools and our risk culture, which together help align employee behavior with our risk appetite.

## Our Corporate Culture

HBPH has long recognized that its culture must be one founded on integrity and the highest professional standards. It has clear, defined and enduring responsibilities to safeguard the interests of its depositors, customers, staff, shareholders and the wider communities in which it does business.

Our corporate culture is one that actively supports the purpose and strategy of the organization and reflects our values.

We seek to fulfil these responsibilities by demanding adherence to the highest professional and ethical standards. In consequence, fair treatment of customers and staff; full compliance with legal and regulatory obligations; adherence to best market practices and conduct; and recognition of our social and environmental responsibilities are embedded as core principles of our culture.

## Our Values

Our values guide us in all our actions – from strategic decisions to day-to-day interactions with customers and each other.

### We value difference

*We actively take a broader perspective, and so are alert to more opportunities for our customers*

### We succeed together

*We make the connections that allow us to realize the full potential of those opportunities*

### We take responsibility

*We hold ourselves accountable and ensure we leverage opportunities with integrity*

### We get it done

*We commit to tenaciously follow through the actions that make those opportunities a reality*

At HSBC, we believe that how we do business is as important as what we do. We want to achieve good results in a way that treats our customers fairly and helps to strengthen communities and ensure a properly functioning financial system. Our values are central to achieving these aims and define who we are as an organization and what makes us distinctive.

All employees are expected to act with courageous integrity. This means speaking up, escalating concerns, and doing right by our customers, communities and each other.

These values reflect the best aspects of our heritage, and remain key to our long-term success.

## Our Behavioral Standards

Our behavioral standards supporting effective financial crime risk management and good conduct:

- **Good judgment** - Strong principles-based judgment and of decision making, which considers the broader picture in fighting financial crime and in maintaining good conduct is of utmost importance for the Bank. We ask the right questions when things do not add up.
- **Accountability** - We all understand the role we play in fighting financial crime and in maintaining good conduct. We make good decisions, stand behind them and acknowledge and learn from our mistakes. Accountability does not mean making decisions in isolation but proactively connecting with others to achieve the right outcome.

- **Speaking up** - We are comfortable in speaking up about concerns, even if they relate to our own mistakes, or highlighting things we feel are wrong. Views are sought and respected and when people do speak up appropriate action is taken.

These standards are also important in promoting prudent risk-taking and fair treatment of customers, which underpin our culture.

## Treating Customers Fairly (TCF)

As a bank, we recognize that our success lies in putting the customer at the center of everything we do. By doing so, we ensure that we reinforce the importance of building and maintaining client relationships and the need to comply with financial consumer protection standards and practices across HBPH. In the end, HBPH's responsibility starts and ends with treating customers fairly.

HBPH's Board and Senior Management has oversight responsibilities in the development and effective implementation of HBPH's consumer protection program. The program aims to:

- demonstrate openness and accessibility in accepting customer feedback and complaints;
- have robust procedures to ensure the proper handling and, where appropriate, prompt rectification of customer complaints;
- demonstrate HSBC's commitment to service excellence, truth and fair dealing with its customers;
- ensure that customer complaints are dealt with effectively and within committed timelines; and
- comply with the letter and spirit of regulatory requirements and voluntary codes of conduct, where applicable.

Notwithstanding the outsourcing of complaint resolution to the Global Servicing Center ("GSC"), the Head of Customer Relations and Experience ("CRX") is responsible for the implementation of the complaints strategy and policy of HBPH including processes administered by vendors who act on behalf of the Bank.

Complaints and feedback from customers (and the public at large) are captured in HBPH's Customer Feedback Management System or "CFMS" to ensure that each is logged and monitored for action and resolution in a timely manner.

Complaint handling turnaround time is based on whether the complaint is determined to be simple or complex; however, the process followed by the Customer Relations Team ("CRT") in handling both complaint types remains the same: (1) Identification and Recording; (2) Investigation; (3) Communication; (4) Resolution; and (5) Remedial Action.

Management information generated from CFMS is utilized to determine the root cause of the major complaint areas of HBPH with the aim of revising policies and procedures to improve the customer journey as well as lead to impactful optimization initiatives.

## Connecting customers & communities to opportunities

*As a Group, HSBC aims to be where the growth is, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfill their hopes and realize their ambitions.*



## Supporting sustainable growth

As a major international business, HSBC has an impact on people all over the world including customers, employees, suppliers, investors, and the wider communities it serves.

As an organization, we understand the importance of our relationships with all these different groups while taking into account their needs and aspirations. We also recognize our duty to manage the impact of our business on our environment. Without doing this, we cannot thrive over the long term.

Under the broad theme of supporting sustainable economic growth, HSBC's sustainability strategy focuses on 3 strategic areas, defined as the Group's sustainability 'Global Pillars':

- **Future Skills:** We provide our customers, communities, and employees with the skills and knowledge needed to thrive in the global economy;



- **Climate Program:** We are committed to the transition to a global net zero economy, not just by playing our part, but by helping to lead it. We're doing this across the bank – in our operations and supply chain – and by supporting our customers in their own transitions; and
- **Sustainable Finance:** While we do not offer sustainable financing to corporations, it is our aim to increase sustainable finance awareness across our customers through regular webinars and offer referral services to allow them to avail of ESG-related funds when requested.

HBPH works with Charity Rewards partners like ChildHope Asia Philippines, Inc. and WWF to address these issues through the support of our customers who use the rewards points they earn to donate.

## Our Risk Management Structure

We seek to maintain a conservative and consistent approach to risk, helping to ensure we protect customers' funds, lend responsibly and support economies. By carefully aligning our risk appetite to our strategy, we aim to deliver sustainable long-term shareholder returns.

Active risk management helps us to achieve our strategy, serve our customers and communities, and grow our business safely. We identify risks to our business and assess their materiality by considering their likelihood and potential customer, financial, reputational and regulatory impacts, as well as market conduct and competition outcomes. We manage these risks through a combination of limits and controls to ensure risks are within our appetite. We then aggregate and report risk data to highlight material risks and support good decision making. Where necessary, these risks are escalated to senior management and risk governance committees to facilitate management decisions, challenge and remediation.

All employees are responsible for the management of risk, with the ultimate accountability residing with the Board. We recognize the importance of a strong culture, which refers to our shared attitudes, values and standards that shape behaviors related to risk awareness, risk taking and risk management. This is embedded through clear and consistent communication and appropriate training for all employees.

A comprehensive risk management framework is applied throughout HBPH, with governance and corresponding risk management tools. This framework is underpinned by our risk culture and reinforced by our values and required conduct outcomes. It fosters continual monitoring, promotes risk awareness and encourages a sound operational and strategic decision-making and escalation process. It also supports a consistent approach to identifying, assessing, managing and reporting the risks we accept and incur in our activities, with clear accountabilities. We continue to actively review and develop our risk management framework and enhance our approach to managing risk, through our activities with regard to: people and capabilities; governance; reporting and management information; credit risk management models; and data.

Our risk function oversees the framework and is independent from the line of businesses, including our sales and trading functions, to provide challenge, appropriate oversight and balance in risk/reward decisions. Our risk appetite, expressed in both qualitative and quantitative terms, encapsulates the consideration of financial and non-financial risks. We define financial risk as the risk of a financial loss as a result of business activities. We actively take these types of risks to maximize shareholder value and profits. Non-financial risk is the risk to achieving our strategy or objectives as the result of failed internal processes, people and systems, or from external events.

This is articulated in our Board-approved risk appetite statement including:

- risks that we accept as part of doing business, such as credit risk and market risk;
- risks that we incur as part of doing business, such as operational risk, which are actively managed to remain below an acceptable tolerance; and
- risks for which we have zero tolerance, such as knowingly engaging in activities where foreseeable reputational risk and misconduct has not been considered.

Internal stress tests are important elements in our risk management and capital management frameworks. They include potential adverse macroeconomic, geopolitical and operational risk events, and other potential events that are specific to HBPH. The selection of scenarios reflects our top and emerging risks identification process and our risk appetite. Stress testing analysis helps management understand the nature and extent of vulnerabilities to which HBPH is exposed. We also perform regulatory stress testing to help ensure the strength and resilience of HBPH.

We use a top and emerging risks process to provide a forward-looking view of issues with the potential to threaten the execution of our strategy or operations over the medium to long term. We proactively assess the internal and external risk environment, as well as review the themes identified across our lines of business, for any risks that may require global escalation. We update our top and emerging risks as necessary.

## Our Risk Appetite

Our risk appetite defines our desired forward-looking risk profile, and informs the strategic and financial planning process. It provides an objective baseline to guide strategic decision making, helping to ensure that planned business activities provide an appropriate balance of return for the risk assumed, while remaining within acceptable risk levels.

Our risk appetite also provides an anchor between our Lines of Business and Risk and Finance functions, helping to enable our senior management to allocate capital, funding and liquidity optimally to finance growth, while monitoring exposure and the cost impacts of managing non-financial risks.

Our risk appetite contributes significantly to a strong and integrated risk management framework and risk culture, helping direct and support sustainable growth against the backdrop of a heightened risk environment.

Further, we utilize the Risk Appetite Statement (“RAS”), which consists of a qualitative statement and quantitative metrics covering financial and non-financial risks with defined Risk Appetite and Tolerance thresholds. It provides a baseline for business decisions based on balancing risk and return, and making the best use of our capital.

Risk appetite metrics are reviewed semi-annually and are fundamental to the development of business line strategies, strategic and business planning and senior management balanced scorecards.

## Our Areas of Risk

### *Financial Risks*

#### **Treasury Risk**

Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including the risk of adverse impact on earnings or capital due to structural foreign exchange exposures and changes in market interest rates, and including the financial risks arising from historical and current provision of pensions and other post-employment benefits to staff and their dependents.

#### **Credit Risk**

Credit risk arises principally from direct lending, trade finance and from certain other products such as guarantees and derivatives. Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. To manage credit risk, we ensure it is:

- **measured** as the amount which could be lost if a customer or counterparty fails to make repayments. In the case of financial investments (i.e., derivatives), the measurement of exposure takes into account the current mark-to-market value to HBPH of the contract and the expected potential change in that value over time caused by movements in market rates;
- **monitored** within limits approved by individuals within a framework of delegated authorities. These limits represent the peak exposure or loss to which HBPH could be subjected should the customer or counterparty fail to perform its contractual obligations; and
- **managed** through a robust risk control framework which outlines clear and consistent policies, principles and guidance for risk managers.

There were no material changes in the policies and practices for the management of credit risk in 2021 and 2020.

#### **Market Risk**

Market risk is the risk of adverse financial impact on trading activities arising from changes in market parameters such as interest rates, foreign exchange rates, asset prices, volatilities, correlations and credit spreads. The Standardized Approach is used in HBPH's market risk-weighted assets.

Exposure to market risk is separated into two portfolios: trading portfolios and non-trading portfolios.



Where appropriate, the Bank applies similar risk management policies and measurement techniques to both trading and non-trading portfolios. The Bank's objective is to manage and control market risk exposures to optimize return on risk while maintaining a market profile consistent with the Bank's established risk appetite. Each major operating entity has an independent market risk management and control sub-function, which is responsible for measuring, monitoring and reporting market risk exposures against limits on a daily basis. Each operating entity is required to assess the market risks arising in its business and to transfer them either to its local Markets and Securities Services or Markets Treasury unit for management, or to separate books managed under the supervision of the local Asset and Liability Management Committee ("ALCO"). The Traded Risk function enforces the controls around trading in permissible instruments approved for each site as well as changes that follow completion of the new product approval process. Traded Risk also restricts trading in the more complex derivative products to offices with appropriate levels of product expertise and robust control systems

## **Key risk management process**

### *Monitoring and limiting market risk exposures*

The Bank's objective is to manage and control market risk exposures while maintaining a market profile consistent with the Bank's risk appetite. The Bank uses a range of tools to monitor and limit market risk exposures including sensitivity analysis, VaR and stress testing.

### *Sensitivity analysis*

Sensitivity analysis measures the impact of individual market factor movements on specific instruments or portfolios, including interest rates, foreign exchange rates and equity prices where applicable. The Bank uses sensitivity measures to monitor the market risk positions within each risk type. Granular sensitivity limits are set for trading desks with consideration of market liquidity, customer demand and capital constraints, among other factors.

### *Value at risk*

Value at risk (VaR) is a technique for estimating potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The use of VaR is integrated into market risk management and calculated for all trading positions regardless of how the Bank capitalizes them. In addition, the Bank calculates VaR for non-trading portfolios to have a complete picture of risk. Where the Bank does not calculate VaR explicitly, the Bank uses alternative tools as summarized in the 'Stress testing' section below.

The Bank's models are predominantly based on historical simulation that incorporates the following features:

- historical market rates and prices, which are calculated with reference to foreign exchange rates, commodity prices, interest rates, equity prices and the associated volatilities;
- potential market movements that are calculated with reference to data from the past two years; and
- calculations to a 99% confidence level and using a one-day holding period.

The models also incorporate the effect of option features on the underlying exposures. The nature of the VaR models means that an increase in observed market volatility will lead to an increase in VaR without any changes in the underlying positions.

### *VaR model limitations*

Although a valuable guide to risk, VaR is used with awareness of its limitations. For example:

- The use of historical data as a proxy for estimating future market moves may not encompass all potential market events, particularly those that are extreme in nature;
- The use of a one-day holding period for risk management purposes of trading and non-trading books assumes that this short period is sufficient to hedge or liquidate all positions;
- The use of a 99% confidence level by definition does not take into account losses that might occur beyond this level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not reflect intra-day exposures.

The Bank recognizes these limitations by augmenting its VaR limits with other position and sensitivity limit structures.

### ***Stress testing***

Stress testing is an important procedure that is integrated into the Bank's market risk management framework to evaluate the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables. In such scenarios, losses can be much greater than those predicted by VaR modelling. Stress testing is implemented at legal entity, regional and overall Group levels. A set of scenarios is used consistently across all regions within the Group. The risk appetite around potential stress losses for the Group is set and monitored against a referral limit. Market risk reverse stress tests are designed to identify vulnerabilities in the Bank's portfolios by looking for scenarios that lead to loss levels considered severe for the relevant portfolio. These scenarios may be quite local or idiosyncratic in nature, and complement the systematic top-down stress testing. Stress testing and reverse stress testing provide senior management with insights regarding the 'tail risk' beyond VaR, for which the Bank's appetite is limited.

### ***Market risk - Trading***

Trading portfolios comprise positions held for client servicing and market-making, with the intention of short-term resale and/or to hedge risks resulting from such positions.

### ***Back-testing***

The Bank routinely validates the accuracy of the Bank's VaR models by back-testing the VaR metric against both actual and hypothetical profit and loss. Hypothetical profit and loss excludes non-modelled items such as fees, commissions and revenue of intra-day transactions. The hypothetical profit and loss reflects the profit and loss that would be realized if positions were held constant from the end of one trading day to the end of the next. This measure of profit and loss does not align with how risk is dynamically hedged, and is not therefore necessarily indicative of the actual performance of the business.

The VaR for HBPH follows:

<b>In PHP '000</b>	<b>Total</b>	<b>Trading</b>	<b>Foreign Exchange</b>	<b>Interest Rate</b>	<b>Credit</b>
December 31, 2021	2,040	204	204	1,938	-
Average daily	4,182	255	255	4,131	-
Highest	7,497	1,224	1,224	6,885	-
Lowest	2,040	51	51	1,938	-

<b>In PHP '000</b>	<b>Total</b>	<b>Trading</b>	<b>Foreign Exchange</b>	<b>Interest Rate</b>	<b>Credit</b>
December 31, 2020	8,059	768	768	6,860	-
Average daily	14,055	528	528	13,911	-
Highest	21,874	1,055	1,055	21,874	-
Lowest	7,435	144	144	6,764	-

### ***Stress Value at Risk***

Stressed VaR is a 99th percentile 10-day VaR calibrated to a one-year period of stress observed in history. Stressed VaR is calculated from a 250-day stressed market conditions which would amount to a worst case scenario. Stressed VaR must be calculated at least weekly. The stressed VaR measure must be based on inputs calibrated to historical data from a continuous twelve-month period of significant financial stress relevant to the portfolio. SVaR is reported at 1 day holding period.

The SvaR for HBPH follows:

<b>In PHP '000</b>	<b>2021</b>	<b>2020</b>
December 31, 2021	102	528
Average	306	576
Highest	816	1,199
Lowest	51	240

### ***Market Risk – Non-Trading***

#### **Management of Interest Rate Risk in the Banking Book**

Interest rate risk in the banking book (IRRBB) is the structural interest rate risk that arises due to the interest rate re-pricing mismatch between assets and liabilities in the regulatory banking book. The banking book includes

assets and liabilities accounted for at amortized cost and/or at Fair Value Through Other Comprehensive Income (FVOCI).

IRRBB Risk is:

- **monitored** in line with the Group's IRRBB risk framework. Primary oversight is delegated to the Asset and Liability Committee (ALCO)
- **measured** using internal metrics such as Sensitivity of Net Interest Income and Economic Value Equity (EVE) Sensitivity, and is an integral risk assessed in the conduct of the annual Enterprise Wide Stress Testing (EWST) exercise.

#### *Sensitivity of net interest income*

A principal part of the Group's and the Parent Company's management of IRRBB is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling). The Group and the Parent Company aim, to mitigate the effect of prospective interest rate movements which could reduce future net interest income, whilst balancing the cost of such hedging activities on the current net revenue stream.

For simulation modelling, businesses use a combination of scenarios relevant to local businesses and local markets and standard scenarios which are required throughout the HSBC Group.

Interest rate shocks applied are as follows: (a) a parallel movement of plus or minus 100 basis points (bps) in all yield curves; and (b) a parallel movement of plus or minus 200 basis points (bps) in all yield curves. Assuming no management actions, a series of such rises and declines would increase (decrease) planned net interest income of the Parent Company and HSBC Savings Bank. This exercise is being done monthly.

The interest rate sensitivities are based on simplified scenarios. It represents the effect of the pro-forma movements in net interest income based on the projected yield curve scenarios and the Group's and the Parent Company's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by Markets Treasury (MKTY) or the business units to mitigate the impact of this interest rate risk. In reality, MKTY proactively seeks to change the interest rate risk profile to minimize losses and optimize net revenues. The projections also assume that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged. The projections take account of the anticipated net interest income impact of rate change differences between interbank interest rates and interest rates linked to other bases (such as BSP rates or product rates over which the entity has discretion in terms of the timing and extent of rate changes). The projections make other simplifying assumptions too, including static balance sheet. The impact to net income and equity is equivalent to the impact to net interest income.

#### **Strategic Risk**

The risks to business plans and strategic objectives resulting from poor execution, inability to adapt to changes in external environment, or failure to meet stakeholder expectations. This failure to meet stakeholder expectations is also known as reputational risk, and it is a result of any event, behavior, action or inaction, either by HBPH, its employees or those with whom it is associated, that might cause stakeholders to form a negative view of the Bank. We have an unwavering commitment to operating at high standards. Any lapse in standards of integrity, compliance, customer service or operating efficiency represents a potential reputational risk.

#### ***Non-Financial Risks***

In order to manage non-financial (operational) risks, the Group's **Risk Management Framework ("RMF")**, includes the adoption of the Three Lines of Defense model, which sets out roles and responsibilities for managing operational risks on a daily basis.

Audit and Risk Committee meetings for HBPH are in place to review existing operational risk profiles and make decisions on recommendations to ensure an effective non-financial risk program that meets regulatory requirements and Group standards is in place.

HBPH performs Risk and Control Assessments (RCA) to identify their key non-financial risks. This process also provides a platform for establishing a forward-looking risk awareness and highlights key risks and related controls for oversight and continuous monitoring. The Bank's risk taxonomy and control library is a set of standardized risk types, controls and definitions. It provides the common language across the Bank and promotes consistency in how the Bank identifies, assesses, monitors and reports risk across the businesses and functions.



Operational risk loss data is recorded and reported to senior management, where details of these events above a materiality threshold are reported in the Group Operational Risk Management System, in addition to RCA. Escalation thresholds are also in place to require escalation to Group.

#### **Financial Crime Risk**

The risk of knowingly or unknowingly helping parties to commit or to further illegal activity through HBPH, including money laundering, fraud, bribery and corruption, tax evasion, sanctions breaches, and terrorist and proliferation financing.

#### **Financial Reporting and Tax Risk**

The risk of reporting financial information incorrectly or untimely, or failure in managing tax exposures.

#### **Resilience Risk**

The inability of HSBC to provide critical services to our customers, affiliates, and counterparties, as a result of sustained and significant operational disruption. Our resilience strategy includes the establishment of robust business recovery plans including detailed response methods, alternative delivery channels and recovery options.

#### **People Risk**

The risk of adverse impact due to not having a diverse and inclusive workforce, with enough people with the right skills, to allow us to serve our customers and lead high-performance businesses where people thrive, including risks associated with employment practices and poor employee behavior.

#### **Regulatory Compliance Risk**

The risks associated with breaching our duty to clients and other counterparties, inappropriate market conduct and breaching related financial services regulatory standards.

#### **Legal Risk**

The risk of financial loss, legal or regulatory action or reputational damage resulting from Contractual risk, Dispute Mismanagement risk, Breach of Competition Law risk and Intellectual Property risk.

#### **Model Risk**

The risk of inappropriate or incorrect business decisions arising from models that have been inadequately designed, implemented or used; or that models do not perform in line with expectations and predictions.

### ***The scope and nature of risk reporting and/or measurement systems***

Risk reporting is based on the following key principles:

- Data is recorded timely and accurately in the appropriate system of record
- Data is aggregated into meaningful risk information and consistently reported through governance committees
- Risk information is used by the business to make better decisions

Risk reporting procedures include the identification of relevant data quality issues, limitations and issues identified through appropriate validation checks and resolved.

HBPH meets local regulatory risk reporting requirements and makes sufficient public disclosures of how it manages risk. All risk reporting disclosed to supervisory and regulatory authorities are subject to quality assurance.

There are numerous internal risk reports prepared for specific risk types, such as credit risk, market risk and non-financial risk first line reports. Credit and market risk reporting involve exposure, loss and limit utilization reporting while non-financial risk reporting involve risk and control assessments. For non-financial risks, the system of record is HSBC Helios, where Risk and Control Assessments (including identification of issues and actions) are documented.

### ***Policies for mitigating risk, and processes for monitoring the continuing effectiveness of mitigants***

HBPH is guided by policies set at the HSBC Global level, which establishes the requirements to ensure the effective and consistent management of a particular risk. Each risk type within the Bank's risk taxonomy must have a policy, and for each risk type it explains:

- The extent and kind of risk we are willing to take when carrying out our business and pursuing our objectives
- The minimum control requirements for activities that expose HBPH to that type of risk

Particularly for non-financial risks, the Risk Prioritization Matrix is a tool that enable risks to be assessed using a standardized methodology, through a combination of likelihood of a risk occurring in the next twelve months, with the impact of the risk were it to occur (financial, customer detriment, regulatory censure and reputational impacts). A risk's control environment is also assessed in terms of the overall control effectiveness and whether it delivers the intended risk mitigation.

Control monitoring plans are in place to evaluate control effectiveness and these include a variety of first line activities such as:

- design and operating quality checks
- authorizations and approvals
- governance and escalations
- management information and analytics
- supervision and management

Control monitoring can act as an early warning sign and highlight potential weaknesses in our control environment. Continuous monitoring is the primary way in which control owners evaluate the ongoing effectiveness of controls. Control assurance is a point in time exercise to confirm control effectiveness ratings and ensure continuous control monitoring is effective. Control Assurance functions in particular have been designated to specific populations of controls recorded in Helios in order to plan, coordinate and execute reviews such that all material controls are covered by one Assurance function agreed by the business. A variety of testing techniques are used to enable the Assurance function to form an independent opinion on the effectiveness of the controls and monitoring plans.

Lastly, aside from performing independent audits itself, the Internal Audit Internal Function coordinates reviews with the Assurance functions as necessary.

## **Our Anti-Money Laundering Governance & Culture**

HBPH follows HSBC's established Global Anti-Money Laundering ("AML") Policy and supporting Program in order to meet applicable requirements; and to mitigate potential compliance, regulatory, and reputational risks associated with violations of Anti-Money Laundering, Counter Terrorist Financing ("CTF"), and Proliferation Financing regulations.

Our AML Policies are monitored and updated on an ongoing basis (annually at the minimum), to ensure that it incorporates the best practices identified through industry and regulatory guidance. While Group Financial Crime Compliance (FCC) is responsible for updating Global policies, the updates are cascaded down to business lines and country teams including HBPH for implementation into the local policies and Line of Business procedures. Local regulatory changes are captured at a regional and country level, and require approval from Regional and Global functions via the Country Addenda Process. HBPH has mandated regular AML, Sanctions and Anti-Bribery & Corruption trainings of its employees. At a minimum, an annual training (classroom training and/or e-learning) is provided to all relevant employees.

HBPH undertakes Enterprise Wide Risk Assessment (EWRA) across all business lines to identify and assess the Bank's exposure to AML, Sanctions and Anti-Bribery & Corruption ("AB&C") risks. Executed on an annual basis, covering the full calendar year prior to the year in which it is performed, the EWRA demonstrates a point-in-time view of financial crime risk exposure. This is achieved by the production of inherent risk ratings, derived using a covered methodology. This methodology is used to help Assessment Units (AUs), typically Lines of Business within each country, identify key risk drivers.

HBPH also follows HSBC's Financial Crime Risk and Control Taxonomy, which is a structured classification and definition of financial crime risk events and the controls required to mitigate these risks.

Risk events and associated control requirements are assessed by the Bank against the relevant policies, guidance, and procedures with the respective financial crime stewardship areas providing oversight and guidance (for example, Anti-Money Laundering, Sanctions, Anti-Bribery and Corruption, Internal Fraud, External Fraud, and Tax Transparency).

The Financial Crime Risk and Control Taxonomy has been embedded into HSBC Helios, as part of a global Control Library, to enable consistency in risk and control assessments (RCAs), event management and issues, and actions management.

To support mitigation of AML and CTF Risks, the Bank uses an enterprise risk management framework which is underpinned by its risk culture and reinforced by its core values and the Global Standards program components of which include:

- (1) An activity-based three lines of defense model – This delineates management accountabilities and responsibilities for risk management and the control environment.

The First Line of Defense owns the risks and is responsible for identifying, recording, reporting and managing them and ensuring that the right controls and assessments are in place to mitigate them.

The Second Line of Defense sets the policy and guidelines for managing specific risk areas, provides advice and guidance in relation to the risk, and challenges the first line of defense on effective risk management.

The Third Line of Defense is the internal audit function, which provides independent and objective assurance of the adequacy of the design and operational effectiveness of HSBC's risk management framework and control governance process.

Additionally, within the first line is the Business Risk and Control Manager (BRCM) who is responsible for testing the AML/CTF controls undertaken by the business. The second line of defense would be the Compliance Advisory function responsible for assisting business in carrying out the first line responsibilities and to act as the governance function. The third line of defense is the internal audit, primarily responsible in testing whether the first and second line are performing in accordance with the requirements to mitigate the risks.

- (2) Customer due diligence (CDD) and Know Your Customer (KYC) policies and procedures are in place and the required secondary checking being performed.
- (3) Screening of Transactions and Customers – This includes screening during staff recruitment, client onboarding and reverse client screening; and screening of transactions and payments against HBPH's Global mandatory sanctions screening and internal lists.
- (4) Transaction Monitoring Systems – HBPH utilizes automated transaction monitoring systems to identify potential account activity. Likewise, a manual process is also in place for HBPH's employees to report unusual activities or events observed in the course of their daily work via Unusual Activity Reports (UARs).
- (5) Reporting of Covered and Suspicious Transaction Reports – HBPH has a facility in place enabling it to submit covered and suspicious transactions.
- (6) Customer Selection and Exit Management (CSEM) Policy and Procedures are in place to ensure that all customer relationships and transactions meet HBPH's risk appetite. Where warranted, CSEM process would be triggered in cases where the business or FCC would recommend exiting a relationship due to financial crime risk or risk mitigation.
- (7) Cooperation with authorities – HBPH's policy and management supports cooperation with authorities to the extent permitted by the applicable laws.
- (8) Records Maintenance – HBPH has a retention program / policy to adhere to local, Hong Kong Monetary Authority (HKMA) and HSBC's standards of retention of relevant documents.
- (9) Training – All newly-hired staff are required to take the prescribed AML and sanctions training program within a prescribed deadline and annually as part of the refresher course.



- (10) Consequence Management – A process is in place for investigating personal conduct breaches or negligently breaching bank’s policies, procedures, standards or values. A Disciplinary and Performance and Reward Sanctions matrix is utilized for each level of misconduct.
- (11) Reporting and Escalation – A procedure on key risk identification and escalation is in place to report to FCC any AML/CTF issues. Material items are reported to the FCRMC/RMM. Additionally, management information reports are submitted to the said Committee.

## Our Corporate Governance

We at HSBC Savings Bank are committed to high standards of corporate governance. We have a comprehensive range of policies and systems in place to ensure that HBPH is well-managed, with effective oversight and control.

As a member of HSBC, HBPH is required to operate at the highest possible standard, regardless of whether this standard is applied as a globally consistent approach adopted by HSBC or as a result of local regulatory expectations. Acknowledging that the Global Company Secretary Function maintains a fully developed Functional Instruction Manual, which sets out a globally consistent approach to the application of corporate governance policy, process, procedure and practice, this applies only insofar if there is no conflict with any local legislative or regulatory requirements.

### The Board of Directors

The Board is responsible to promote HBPH’s long-term success, deliver sustainable value to shareholders and other stakeholders in a manner consistent with its corporate objectives and promote a culture of openness and debate.

Led by the non-executive Chairman, the HBPH Board sets HBPH’s strategy and risk appetite. It also approves capital and operating plans for achieving strategic objectives recommended by management. The Board delegates specified non-executive matters to its committees. Additionally, an Executive Committee is authorized to act in behalf of the Board to facilitate ad hoc and other matters that need Board approval.

### Our Governance Structure

Senior Management is responsible for the day to day operations of HBPH in compliance with Board-approved policies and procedures and all applicable regulations. To ensure efficiency, we have created management committees to look after key aspects of the business.



## The Bank's Board-Level Committees

To aid the Board in its various tasks to ensure efficiency and provide greater oversight, the following Board-level committees were created.

### *The Audit & Risk Committee (ARC)*

In 2019, the Risk Management Committee and Audit Committee were consolidated into what we now refer to as the Audit & Risk Committee (ARC). This transformation was a result of the Bank's governance streamlining initiatives to align its structure with the requirements for the Bank (as classified by the BSP as a simple bank) and the relative size and scale of its retail banking business.

The ARC consolidates oversight on all risk and audit matters of running the Bank. The committee established to provide recommendations and advice to the Chairman on the following:

#### **Enterprise-wide management of all risks**

This includes key policies and frameworks for the management of risk, within HBPH as set out in HSBC's Enterprise Risk Management ("ERM") Framework including the Bank's risk culture, risk appetite, risk profile, stress testing and integration of risk management into HBPH's strategic objectives. The Committee is also charged with the following responsibilities: (1) to review HBPH enterprise risk reports (including risk map and top and emerging risk reports); (2) processes for managing Regulatory Compliance Risk arising from the activity of HBPH; (3) to review sub-committee reports and matters for escalation; and (4) to promote and cascade a supportive culture in relation to risk management and controls and to ensure our risk management practices support our conduct outcomes.

#### **Financial reporting and internal financial controls**

This includes reviewing: (a) the integrity of the financial statements, Pillar 3 disclosures (where relevant), formal announcements and disclosures relating to financial performance; (b) the effectiveness of Internal Audit and the external audit process; and (c) the effectiveness of internal financial control systems.

The Committee shall be composed of at least three (3) members of the Board of Directors, majority of whom shall be independent directors, including the chairperson. The Chairman of the ARC shall be appointed by the Board and shall not be the chairperson of the Board of Directors, or any other board-level committee. It shall have also access to independent experts to assist it in discharging its responsibilities.

Given HBPH's size and scale of operations, all other functions such as IT Oversight, Nominations and Corporate Governance have been incorporated into the responsibilities of the Board. HBPH has also created non-Board Level internal committees to oversee its day to day operations.

## The Bank's Other Committees

### *Executive Committee (EXCO)*

The EXCO's aim is to assist the Board in fulfilling the day to day operation of the business by acting upon such matters as the Board may entrust to it for action including the authority to create such committees or delegate any power that it has or might have as may be deemed necessary for the best interest of HBPH, subject to the limitations as provided under internal and regulatory governance requirements.

### *Asset & Liability Committee (ALCO)*

ALCO's purpose is to ensure that Asset, Liability and Capital Management (ALCM) issues are acknowledged, monitored and controlled by management. It looks after capital and liquidity adequacy, transfer pricing policies, interest rate risk and dividend payouts among others. ALCO focuses on both backward and forward looking view of the business including capital plans.

### *Staff Loans Credit Committee*

The committee serves as the main venue for approvals of staff loan applications under the Financial Assistance Program of HBPH, as approved by the BSP. The Committee also serves as a venue for its members to raise concerns and make recommendations as to the efficiency of the staff loan approval process, or the effectiveness of the existing policies.

## Other Risk Stewards

### ***Internal Audit & Compliance***

HBPH's internal audit function is handled by HSBC's Regional Internal Audit. Its role is to help the Board and Senior Management protect the assets, reputation and sustainability of HBPH by providing independent and objective assurance as to whether the design and operational effectiveness of HSBC's framework of risk management, control and governance processes, as designed and represented by management, is adequate.

The Internal Audit is part of HBPH's Third Line of Defense and sits as a regular attendee in the quarterly Audit & Risk Committee meeting where they share their audit plan and most recent audit findings.

### ***Compliance***

Compliance Advisory (known as the Compliance Function), on the other hand, is part of HBPH's Second Line of Defense is a key partner of management in managing risk and oversight. The team directly reports to HBPH's Compliance Officer and is a regular guest of Board meetings as well as the Audit & Risk Committee meetings.

## Our Governance Structure and Processes

Under the leadership of the Board Chairman, the Directors are responsible for the orderly succession of its own constituent members. In this regard, the Board shall:

- i. consider the size and composition of the Board and recommend any necessary changes;
- ii. recommend individuals for nomination as potential new non-executive directors; and
- iii. recommend candidates to board committees.

### ***Appointment of Directors***

The Board's collective membership should comprise of persons with an appropriate mix of skills, experience and personal attributes that allow them both individually and collectively to:

- i. discharge their responsibilities and duties under the law effectively and efficiently;
- ii. understand the business of HBPH and the environment in which it operates so as to allow them to set management objectives, goals and strategic direction; and
- iii. assess the performance of management in meeting those objectives and goals.

Not every non-executive director will necessarily fulfil all criteria, but the following core attributes are important to consider during the selection process. Directors should:

- have relevant and extensive business experience
- fit culturally with the existing Board and be empathic to HBPH's culture
- maintain a high level of personal integrity
- have the ability to work in a collegial manner
- bring an independent state of mind to Board decisions
- be free of material conflicts
- be available to meet the time commitment required

In addition, the desirability of having diversity of skills and experience is also considered. That said, the Board believes first and foremost that appointments should be made based on merit and that candidates should be considered against objective criteria.

Recommendations for new board appointments will be raised to the full Board for consideration and approval. All Board appointments are subject to the endorsement by the Regional CEO, The Hongkong and Shanghai Banking Corporation Limited (HBPH's regional holding company) and local regulatory approval.

### ***The Board's Overall Responsibilities***

The Board aims to promote HBPH's long-term success, deliver sustainable value to shareholders and promote a culture of openness and debate. Led by the non-executive Chairman, it sets HBPH's strategy and risk appetite, which is consistent with HSBC standards. It also approves capital and operating plans for achieving strategic objectives on the recommendation of management.

The role of our independent non-executive directors is to challenge and scrutinize the performance of management including executive directors and to help develop proposals on strategy. They also review the performance of management in meeting agreed goals and objectives and monitor HSBC's risk profile.



Overall, the Board's responsibilities include:

1. the review and approval of HBPH's business strategies and significant policies, and oversee their implementation, having regard to any of HSBC's strategies that may be in place from time to time.
2. oversight of the risk management framework (including a view of the risk culture) that is consistent with HBPH's strategic objectives and business plan while ensuring an effective system of risk management and internal control is established and maintained.
3. ensuring that there is an effective process in place to ensure that senior management of HBPH collectively have the full range of skills needed for the effective and prudent operation of HBPH, and for assessing their performance.
4. ensuring that procedures are in place for assessing the performance of the collective Board and individual directors.
5. ratifying the appointment or re-appointment of HBPH's President and Chief Executive Officer, or the equivalent position.
6. oversight of subsidiary entities and other entities of HSBC for which HBPH has management responsibility, as well as any material dealings with HSBC entities.
7. ensuring that the external auditor is independent, and has no conflicts of interest.

### ***Managing Related Party Transactions***

The Board is responsible for reviewing HBPH's transactions with its related parties to ensure these have been conducted in a sound and prudent manner, with integrity and in compliance with applicable laws and regulations. To this end, the Board has set out procedures for the effective oversight of related party transactions.

It is the policy of HBPH that all Lines of Business and Functions have in place procedures and controls such that they take all appropriate steps to identify, and prevent or manage Conflicts of Interest (defined as a situation or arrangement where HBPH and/or any of its workers is subject to multiple influences, the competition of which might adversely affect decision-making or outcomes in the course of conducting business). In support of this Policy and to comply with local regulatory requirements on related party transactions, HBPH issued its Guidelines on Related Party Transactions. All employees are expected to assist in the identification of related party transactions, and in the prevention or management thereof, and to act with integrity and exercise good judgment with the requisite degree of independence and objectivity. They should raise any related party transactions or conflicts of interest in a prompt and appropriate manner, using available escalation channels. Loans entered into with a director, stockholder, officer, related interests or related parties, as well as exceptional transactions (other than loans) as defined in the guidelines, need to be reviewed and approved by the Board of Directors to ensure that these transactions are conducted on an arms' length basis and that the terms and conditions thereof remain fair and equitable to HBPH.

HBPH had no related party transactions in 2021, which exceeded the Bank's set materiality threshold.

The Chairman, on the other hand, shall be responsible for ensuring that the Board is effective in its oversight of setting HBPH's direction and strategy and for its implementation by management.

### ***Our Approach to the Board's Onboarding & Ongoing Education***

All members of the Board of Directors are furnished a copy of their duties and responsibilities and provided with a comprehensive training program including a Corporate Governance Orientation for all new members of the Board. HSBC also provides in-house training (similar to the training provided to all bank employees) to the Board covering topics on Anti-Money Laundering, Sanctions, Data Privacy and Cyber Security, Embedding Good Conduct and Bribery and Corruption.

## Our Board of Directors for 2021

Shareholder	Type of Directorship	Age	Nationality	Tenure as Director <sup>3</sup>	Shares Held	Voting %	Effective Date
Patrick Henry A Carlos	Executive	50	Filipino	5.3 years	1		28-May-21
Horace Kwan Hor Chau <sup>1</sup>	Non-Executive	60	Australian	7 years	1		28-May-21
Colin A Drummond	Non- Executive	49	British	4.9 years	1		28-May-21
Graham David FitzGerald <sup>2</sup>	Non- Executive	47	British	3.2 years	1		28-May-21
Peter G Faulhaber	Non-Executive	40	American	2.5 years	1		28-May-21
Rolando C Santos	Independent	57	Filipino	2.6 years	1		28-May-21
Ma Anna Annette A Estacion	Independent	50	Filipino	2.3 years	1		28-May-21
The Hongkong and Shanghai Banking Corporation Limited					149,199,993	99.99	05-Apr-01

<sup>1</sup> Vice Chairman of the Board

<sup>2</sup> Chairman of the Board. Also the Nominee of The Hongkong and Shanghai Banking Corporation Limited in the Board

<sup>3</sup> As at 31 Dec 2021 (from date first appointed to the Board)

## Board and Committee Membership & Meeting Attendance

Name of Director	Board of Directors		Audit & Risk Committee	
	Attended	%	Attended	%
<b>Graham David FitzGerald</b> <i>Chairman, Non-Executive Director</i>	13 of 13	100%		
<b>Horace Kwan Hor Chau</b> <i>Vice Chair, Non-Executive Director</i>	13 of 13	100%		
<b>Patrick Henry A. Carlos</b> <i>Executive Director</i>	13 of 13	100%		
<b>Colin A. Drummond</b> <i>Non-Executive Director</i>	9 of 13	69%	4 of 5	80%
<b>Peter G. Faulhaber</b> <i>Non-Executive Director</i>	11 of 13	85%		
<b>Rolando C. Santos</b> <i>Independent Director</i>	13 of 13	100%	5 of 5	100%
<b>Ma Anna Annette A. Estacion</b> <i>Independent Director</i>	13 of 13	100%	5 of 5	100%
<b>Total Meetings Held in 2021</b>	<b>13</b>		<b>5</b>	

## Our Dividend Policy

In general, HSBC Savings Bank aims to pay out as dividends at least 60% to 70% of its prior year's net income, subject to local regulatory requirements. In 2021, a total of PHP70,500,000 in dividends was paid out.

## Our Inclusive Hiring Principles

**At HSBC, diversity & inclusion is an important pillar of our People Strategy at all levels of the organization including the recruitment of staff, officers and senior management.**

In an effort to ensure that we attract and retain high-performing diverse talent, the Bank has adopted the Group's Inclusive Hiring Principles. These principles are used in combination with recruitment best practices to cover the end-to-end activity involved in securing the right talent for the Bank's needs.

**Diversity and inclusion (D&I)** plays a key part in every step of the recruitment and onboarding process. This begins from the point a need is identified, right through the recruitment process (internal and external), to a colleague starting and becoming productive in their new role in the Bank.

Our hiring principles cover:

- **Required Training** – Hiring managers must complete e-learning courses on HSBC University prior to commencing recruitment

- **All roles should be advertised**, as a general rule. Permitted exceptions will be roles where formal succession plans are in place or highly sensitive new roles. Recruitment adverts are thoroughly reviewed to ensure the **use of neutral and inclusive language** and reflect **our openness around flexible working**
- **Interview panels** should be **balanced and diverse**
- **Be accountable for driving the correct values** throughout the hiring process. Our values influence our behaviors. Our conduct serves as a commitment to teammates and new or potential hires about the behaviors we expect at HSBC
- **Finally, challenge** where you do not see the principles being adhered to

## Our Performance & Assessment Approach

At HBPH, we believe that good performance conversations, are about quality one-to-one conversations and a lot of specific feedback on skills and strengths, not just outputs and challenges.

As a bank, we have adopted **Everyday Performance and Development** to assess and provide feedback to our personnel. Our Everyday Performance and Development approach is about having frequent and meaningful conversations throughout the year to enhance performance and support development. Frequent conversations allow employees to get ‘just in time’ feedback to address any performance and development concerns, reinforce strengths and confirm what needs to be achieved. Where appropriate, these conversations are recorded in HBPH’s My Performance system including the use of a Development Plan template to evidence achievements or areas for improvement or development throughout the year.

### *Our Remuneration Policy*

*Employee reward is designed to support rather than be the overriding focus of employment at HSBC.*

At HSBC, our reward strategy helps to attract, retain and motivate the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience within the Group. This strategy recognizes people who are committed to the sustainable long-term performance of HSBC in the interests of our shareholders and other stakeholders.

### **HSBC’s Rewards strategy includes:**

- A competitive total reward package that includes a mix of fixed pay, variable pay and employee benefits
- An appropriate balance between fixed pay, variable pay and employee benefits
- Fixed pay and variable pay will vary according to an employee’s seniority, role, individual performance and the market
- Fixed pay levels that are market competitive and allow our employees to meet their basic day-to-day living expenses
- Variable pay that is awarded on a discretionary basis and dependent upon Group, business and individual performance
- Employee benefits that are valued by a diverse workforce, appropriate at the local market level and which support HSBC’s commitment to employee well-being.
- Promoting employee share ownership through mandatory variable pay deferral or voluntary enrolment in an all employee share plan
- Reward packages linked to performance and behavior with no bias towards an individual’s ethnicity, gender, age, or any other characteristic

### **The strategy is based on the following principles:**

- An 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 against HSBC’s values and risk / 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
- Targeting pay for employees across the full market range depending upon their individual performance and that of the Group. An individual’s position in this market range will also vary depending upon their performance in any given year
- Compliance with relevant regulation and ensuring this applies at a high standard across all of our countries and territories

In-line with this framework, the Bank's independent directors are remunerated on an annualized basis (rather than the local industry practice of paying on a per diem/per meeting basis) for the dispensation of their duties and responsibilities including their attendance to Board and Committee meetings. Further, HBPH periodically reviews the remuneration of the independent directors, and if appropriate, proposes changes for endorsement by the Group's Corporate Governance and Secretariat.

### ***Our Retirement Policy***

HBPH is covered by a funded defined (non-contributory) benefit plan and a defined contribution plan:

- **HSBC Multi-Employer Defined Benefit Retirement Plan ("DB Plan")** – For employees who were hired prior to July 1, 2007, and have not voluntarily enrolled into the HSBC Multi-Employer Defined Contribution Retirement Plan
- **HSBC Multi-Employer Defined Contribution Retirement Plan ("DC Plan")** – For employees who were hired from July 1, 2007 and employees who were hired prior to July 1, 2007, and have voluntarily enrolled into the DC Plan

The applicable Retirement Plan determines what benefits the employee and/or beneficiaries may receive, if any, in the following situations:

- Normal Retirement, upon reaching age sixty (60) or upon completion of thirty-five (35) years of continuous service, whichever happens first
- Early Retirement, which is by application and subject to approval of HBPH after reaching age fifty (50) and rendering at least ten (10) years of continuous service
- Late Retirement which is the defined end of the period where an employee remains in active service after his normal retirement date only by mutual agreement with HBPH specified in writing
- Voluntary Separation, which is when an employee voluntarily resigns from HBPH after at least 5 years of continuous service
- Involuntary Separation, which is when an employee, prior to eligibility from retirement, is separated from service from HBPH not due to his own fault, misconduct, material neglect
- Death of the employee, where the benefits will be given to his designated beneficiaries
- Total and Permanent Disability, where an employee is separated from service due to Total and Permanent Disability, as certified by a licensed physician appointed by the Board of Trustees of the Retirement Plan
- Separation for Cause, pursuant to the applicable provisions of the Philippine Labor Code

### ***Our Policy on Succession Planning***

We use "Everyday Succession Management (ESM)". This is the practice of identifying critical positions within the bank, identifying the capabilities and experience required to be successful in those positions and then identifying and developing potential successors.

Critical positions are those that:

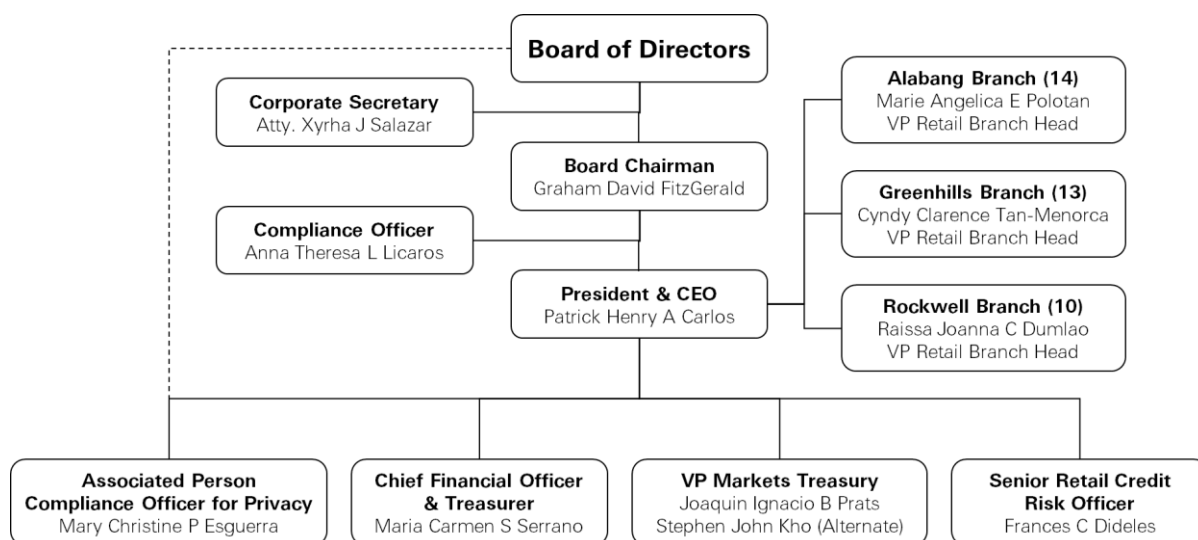
- Compared to other positions at the same level, are strategically important and/or high risk. This could include positions which are expected to grow in scope and importance in the future; or
- Are required by the regulator; or
- Require a critical capability or skill for which there is a limited market supply internally or externally.

To ensure the robustness and validity of succession plans, leaders are asked to apply the following principles in the creation of succession plans:

- Potential successors are identified and categorized based on their readiness in assuming the target role:
  - a. Emergency Cover – temporarily hold the role while the process to identify and appoint a more permanent role holder is ongoing
  - b. Ready Now – may take on the role once it becomes vacant
  - c. Develop in Role – a few key development areas need to be addressed while in their current role
  - d. 1 to 2 Roles Away – would benefit from broader or deeper experience gained through taking on other roles in preparation for the target role
- Diversity – Potential successors should be drawn from the widest pool of talents in order to meet HSBC's diversity and inclusion aspirations
- Transparency – Open conversations with all successors and their line managers should be held throughout the process
- Future-focused – The way in which the role is likely to change in the future should be taken into account in identifying relevant successors

- Enterprise view – Plan owners should engage in cross-business/function/region dialogue to ensure they nominate successors with an enterprise view in mind. They should also agree on any amendments made to previously agreed plans
- Development plans – identified successors should be supported to create robust individual development plans.

## Our Organizational Structure



## Our Board of Directors

### GRAHAM DAVID FITZGERALD

*Chairman, Non-Executive Director since 2018*

*British, 47 years old*

- President & CEO, HSBC Philippines since October 2018
- Director, European Chamber of Commerce of the Philippines since Jun3 2021
- Chairman of the Board & Director, HSBC Insurance Brokers (Philippines), Inc. since June 2021
- Director, HSBC Electronic Data Processing (Philippines), Inc. since June 2020
- Director, Bankers Association of the Philippines since March 2021
- Chairman & Director, HSBC Finance (Brunei) Berhad until July 2019
- Senior Executive, HSBC International until October 2018
- CEO, HSBC Brunei until July 2018
- Regional Head of Corporate Banking, HSBC Middle East until July 2016
- Regional Chief Operating Officer, Commercial Banking, HSBC Middle East until March 2014
- Senior Manager Corporate, HSBC Hong Kong until December 2012
- Global Relationship Manager, HSBC New Zealand until July 2010
- Senior Commercial Manager, HSBC UK until December 2007
- Regional Manager, Northrop Grumman until January 2004
- Lieutenant – Warfare Officer, Royal Navy until April 2002
- Education: BS Physics University of Waikato

### HORACE KWAM HOR CHAU

*Vice Chairman and Non-Executive Director since 2014*

*Australian, 60 years old*

*Director, HSBC Provident Fund Trustee (Hong Kong) Limited*

*Honorary Treasurer, Hong Kong Red Cross*

*Senior Executive International Asia Pacific, HSBC Hong Kong*

*Honorary Treasurer, HSBC Wayfoong Sports Club*

*Director, HSBC Bank (Taiwan) Limited*

*Honorary Treasurer, Outward Bound Hong Kong until September 2014*

- Senior Executive, CEO Office, HSBC Hong Kong until October 2011



- Head of Asset & Liability Management, Finance, HSBC Hong Kong until January 2010
- Senior Manager Corporate Strategy, HSBC Hong Kong until November 2007
- Senior Manager Asset & Liability Management, HSBC Hong Kong until September 2006
- Senior Asset & Liability Manager, HSBC Hong Kong until March 2005
- Manager Finance Planning, HSBC Hong Kong until November 2011
- Manager Management & Cost Accounting, HSBC Hong Kong until October 2000
- Finance Manager Area Office China, HSBC Hong Kong until March 1997
- Manager Management Information Services, Dah Sing Bank until April 1996
- Licensed Certified Public Accountant, CPA Australia and Hong Kong Institute CPAs
- Education: Bachelor of Commerce, University of Queensland;  
Master of Commerce, University of New South Wales

### **PATRICK HENRY A. CARLOS**

*Executive Director since 2016*

*Filipino, 50 years old*

- President & CEO, HSBC Savings Bank since September 2016
- SVP, Head of Customer Experience, HSBC Philippines until September 2016
- SVP, Head of RBWM Marketing, HSBC Philippines until February 2015
- SVP, Retail & Commercial Bank Marketing, HSBC Philippines until July 2012
- SVP, Bank & Assets Marketing, HSBC Philippines until August 2011
- VP Cards Marketing, HSBC Philippines until September 2009
- AVP Cards Marketing, HSBC Philippines until March 2006
- AVP Diners Club Brand Manager & Business Team Head, Diners Club International until April 2002
- AVP, Portfolio Management, AIG Card Center until September 2000
- Co-branded Card Portfolio Manager, Standard Chartered Bank until February 1999
- Manager Non-Sales Channels, Standard Chartered Bank until May 1998
- AM Telemarketing Channel, Citibank until April 1998
- Education: BA Management Economics, Ateneo De Manila University

### **PETER GEORGE FAULHABER**

*Non-Executive Director since 2019*

*American, 40 years old*

- Head, Wealth & Personal Banking, Philippines since February 2019
- Head – Retail Distribution Branch Network, Jersey Channel Islands until December 2018
- Regional Head – Retail Banking & Wealth Management Internal Audit, Asia Pacific, Hong Kong until August 2015
- Regional Head – Business Risk & Control Management, RBWM, Dubai, UAE until August 2013
- Premier Centre Manager, Premier Direct, RBWM Middle East, Dubai, UAE until November 2011
- Premier Team Leader, RBWM Middle East, Dubai, UAE until May 2010
- Associate, MarketBridge, Washington D.C., USA until June 2008
- Education: BA Middle East History, Georgetown University  
MBA – International Business, INSEAD

### **COLIN ANDREW DRUMMOND**

*Non-Executive Director since 2017*

*British, 49 years old*

- Chief Control Officer, Wealth & Personal Banking Asia Pacific, HSBC Hong Kong since May 2017
- Head of Business Oversight, Retail Banking & Wealth Management Asia Pacific, HSBC Hong Kong until April 2017
- Head of Private Banking, Standard Chartered Bank, Singapore until May 2012
- Head of Operational Risk, The Royal Bank of Scotland Group plc, Hong Kong until September 2010
- Acting Head of Wealth Management Operational Risk, The Royal Bank of Scotland Group plc, Hong Kong until November 2008
- Head of Operational Risk, Coutts UK, The Royal Bank of Scotland Group plc, Hong Kong until April 2008
- Manager, Wealth Management Operational Risk Review, The Royal Bank of Scotland Group plc until January 2006
- Education: Higher Level Education, Beath High School

**ROLANDO C. SANTOS**

*Independent Director since 2019*

*Filipino, 57 years old*

- SVP Asset Liability and Capital Management, HSBC until April 2016
- SVP, Deputy Financial Controller, HSBC until December 2008
- VP Finance, Treasury Administration, HSBC until February 2003
- VP Tax, HSBC until June 2000
- AVP Tax, HSBC until October 1999
- AVP Securities Customer Services, HSBC until May 1998
- AVP Securities Settlements, HSBC until September 1997
- Manager Treasury Controls, HSBC until May 1997
- Manager Tax, HSBC until January 1997
- Manager Financial Control, HSBC until April 1996
- AM GIMIS (Group Integrated Management Information System), HSBC until April 1994
- GIMIS Clerk, HSBC until November 1992
- Reconciliation Clerk, HSBC until September 1991
- Central Bank Reports Clerk, HSBC until November 1990
- Financial Analyst, San Miguel Corporation until September 1988
- Staff Auditor, Sycip, Gorres, Velayo and Co until February 1988
- Education: Bachelor of Science in Commerce Major in Accountancy, De LaSalle University  
Certified Public Accountant since May 1985

**MA. ANNA ANNETTE A. ESTACION**

*Independent Director since 2019*

*Filipino, 50 years old*

- VP & Head of Investor Relations, Customers Value Management and Business Development, Rosehills Memorial and Management Philippines, Inc. since January 2021
- VP Alternative Sales Strategic Alliances, PhilPlans until June 2020
- VP Retail Branch Head BGC, HSBC and Sales Coach of the Premier Central Team until June 2013
- VP Retail Branch Head, HSBC until March 2013
- VP Retail Branch Head, HSBC Savings Bank until September 2010
- VP Premier Business, HSBC until March 2010
- VP Directed Trust (Invested Sales), HSBC until April 2008
- AVP Premier, HSBC until July 2007
- Premier Manager, HSBC until March 2006
- Personal Banker, HSBC until January 2003
- Customer Service Representative, HSBC until February 2000
- Outward Remittances and Reconciliation Clerk, HSBC until June 1997
- Customer Service Assistant, HSBC until September 1996
- Account Officer – Banquet Sales, Holiday Inn-Manila Pavilion until September 1995
- Education: Bachelor of Science in Hotel & Restaurant Administration, University of the Philippines  
Bachelor of Science in Business Administration Major in Accounting, Maryknoll College

## Our Senior Management

### **PATRICK HENRY A. CARLOS**

*President & Chief Executive Officer*

*Filipino, 50 years old*

- Executive Director and President & CEO, HSBC Savings Bank since September 2016
- SVP, Head of Customer Experience, HSBC Philippines until September 2016
- SVP, Head of RBWM Marketing, HSBC Philippines until February 2015
- SVP, Retail & Commercial Bank Marketing, HSBC Philippines until July 2012
- SVP, Bank & Assets Marketing, HSBC Philippines until August 2011
- VP, Cards Marketing, HSBC Philippines until September 2009
- AVP, Cards Marketing, HSBC Philippines until March 2006
- AVP, Diners Club Brand Manager & Business Team Head, Diners Club International until April 2002
- AVP, Portfolio Management, AIG Card Center until September 2000
- Co-branded Card Portfolio Manager, Standard Chartered Bank until February 1999
- Manager Non-Sales Channels, Standard Chartered Bank until May 1998
- AM Telemarketing Channel, Citibank until April 1998
- Education: BA Management Economics, Ateneo De Manila University

### **MARIA CARMEN S. SERRANO**

*Chief Financial Officer & Treasurer*

*Filipino, 50 years old*

- Chief Financial Officer & Treasurer, HSBC Savings Bank since June 2018
- Chief Financial Officer, HSBC Savings Bank until June 2018
- VP Retail Banking & Wealth Management, Management Information, Planning & Analysis, HSBC Philippines until August 2013
- VP Retail Marketing Services, HSBC Philippines until August 2010
- AVP Card Operations, HSBC Philippines until June 2007
- AM Finance & Accounting, Card Products Dept., HSBC Philippines until November 2005
- Education: BSC Major in Accountancy, Assumption College  
Licensed Certified Public Accountant

### **ANNA THERESA L. LICAROS**

*Compliance Officer \**

*Filipino, 37 years old*

- SVP and Head of Regulatory Compliance since May 2017
- VP Financial Crime Compliance Advisory Commercial Banking, HSBC Philippines until May 2017
- VP and Board Secretary, Philippine Veterans Bank until May 2016
- Legal Counsel, Business Contracts and Consulting, Manila Electric Company until July 2015
- Junior Associate, Poblador Bautista and Reyes Law Offices until June 2012
- Licensed Lawyer
- Education: Juris Doctor, University of the Philippines Diliman  
BA Broadcast Communication, University of the Philippines Diliman

*\* Resigned and replaced by Shane Godwin in December 2021*

### **FRANCES CARANDANG DIDELES**

*Senior Retail Credit Risk Officer*

*Filipino, 46 years old*

- Senior Retail Credit Risk Officer, HSBC Savings Bank since January 2021
- VP, WPB Risk Quality Assurance, HSBC Philippines from February 2014 up to present
- AVP, WPB Risk Quality Assurance, HSBC Philippines from July 2010 until January 2014
- Assistant Manager, Cards Risk Management, HSBC Philippines from September 2006 until June 2010
- Credit Policy Analyst I-IV, HSBC Philippines from April 2001 until August 2006
- Investment Assistant, State Investment Incorporated from November 2000 until March 2001
- Marketing Assistant, Auto Loans, BPI Family Bank from May 1995 to June 2000
- Education: BS Commerce, Major in Economics, University of Santo Tomas, graduated March 1995

## **JOAQUIN IGNACIO B. PRATS**

*VP, Markets Treasury*

*Filipino, 29 years old*

- VP, Markets Treasury, HSBC Savings Bank since March 2021
- AVP, Balance Sheet Management, HSBC Savings Bank since March 2018
- Manager, Balance Sheet Management, HSBC Savings Bank until February 2018
- Analyst, Debt Capital Markets, HSBC Philippines until May 2017
- Analyst, Global Banking & Markets, HSBC Philippines until June 2015
- Licensed Certified Treasury Professional, Ateneo BAP Institute of Banking
- Fixed Income Certification Program, Securities & Exchange Commission
- Education: BS Applied Economics, De La Salle University  
BS Management of Financial Institutions, De La Salle University

## **Our Products & Services**

### **Deposit Accounts**

HBPH services its mass affluent target segments under two global propositions. Through our global network, HSBC Premier addresses the banking needs of our top tier customers here and abroad, through one's own dedicated Relationship Manager who will assist them in making informed choices that reflect their individual needs, circumstances and life goals. HSBC Personal Banking, on the other hand, is an all-in-one integrated account that offers exclusive product privileges and preferential pricing. As HSBC Savings Bank clients, they both have access to Peso and Foreign Currency Savings, Checking and Time Deposit Accounts. Client also have access to HBPH's convenient banking services including ATMs, EasyPay Machines, Online Banking, Mobile Banking and 24/7 Customer Contact Center.

### **Loans and Other Banking Services**

HSBC Savings Bank provides a number of lending facilities to its customers including personal loans, mortgage and security backed loans. Client also have access to HBPH's convenient banking services including ATMs, EasyPay Machines, Online Banking, Mobile Banking and 24/7 Customer Contact Center.

### **Our Website**

[www.hsbc.com.ph](http://www.hsbc.com.ph)

## **HSBC Savings Bank Branch Directory**

### **HSBC SAVINGS BANK, ALABANG BRANCH (Head Office)**

Unit 1, The Commercial Complex  
Madrigal Avenue, Ayala Alabang  
Muntinlupa City  
+63 (2) 8581-8196

### **HSBC SAVINGS BANK, GREENHILLS BRANCH**

G/F Greenhills Shopping Center  
Ortigas Avenue, San Juan City  
+63 (2) 8581-7230

### **HSBC SAVINGS BANK, ROCKWELL BRANCH**

R1 Level, Space 142  
Lopez Drive, Power Plant Mall  
Rockwell Center, Makati City  
+63 (2) 8581-8455

### **HSBC SAVINGS BANK (Branch Lite)**

4/F HSBC Centre  
3058 Fifth Avenue West  
Bonifacio Global City, Taguig City  
+63 (2) 8581-8401

# 2021 Audited Financial Statement Disclosure Notes

## Capital Structure and Capital Adequacy

Risk-based capital components, including deductions for Year End 2021 and 2020 are shown below:

	2021	2020
<b>Common Equity Tier (CET) 1 Capital:</b>		
Paid-up common stock	1,492,000,000	1,492,000,000
Additional paid-in capital	-	-
Retained earnings	57,513,289	95,710,476
Undivided profits	27,948,934	33,527,460
Other comprehensive income	(62,089,642)	(26,659,076)
Unsecured DOSRI	(4,963,692)	(8,919,377)
Unsecured loans, other credit accommodations and guarantees granted to subsidiaries	-	(169,644,538)
Deferred tax assets	-	-
Goodwill	-	-
Other intangible assets	-	-
Other equity investment	-	-
Other capital adjustments	-	-
Defined benefit pension fund liabilities	-	-
<b>Total CET 1 Capital</b>	<b>1,510,408,889</b>	<b>1,416,014,945</b>
Additional Tier 1 Capital	-	-
<b>Total Tier 1 Capital</b>	<b>1,510,408,889</b>	<b>1,416,014,945</b>
<b>Tier 2 Capital:</b>		
Appraisal increment reserve	-	-
General loan Loss provision	16,050,491	18,193,580
<b>Total Tier 2 Capital</b>	<b>16,050,491</b>	<b>18,193,580</b>
<b>Total Qualifying Capital</b>	<b>1,526,459,380</b>	<b>1,434,208,525</b>

<b>Risk-based capital ratios:</b>	<b>2021</b>	<b>2020</b>
CET 1 Capital	1,515,372,581	1,594,578,860
Less regulatory adjustments	(4,963,692)	(178,563,915)
<b>Total CET 1 Capital</b>	<b>1,510,408,889</b>	<b>1,416,014,945</b>
Additional Tier 1 Capital	-	-
<b>Total Tier 1 Capital</b>	<b>1,510,408,889</b>	<b>1,416,014,945</b>
Tier 2 Capital	16,050,491	18,193,580
<b>Total Qualifying Capital</b>	<b>1,526,459,380</b>	<b>1,434,208,525</b>
<b>Risk Weighted Assets</b>		
CET 1 Capital Ratio	60.10%	48.82%
Capital Conservation Buffer	54.10%	42.82%
Tier 1 Capital Ratio	60.10%	48.82%
Total Capital Adequacy Ratio	60.74%	49.45%

<b>The capital requirements for Credit, Market and Operational Risk are listed below:</b>	<b>2021</b>	<b>2020</b>
Credit Risk	1,556,687,780	1,773,192,147
Market Risk	36,909,822	118,863,076
Operational Risk	919,404,714	1,008,469,497
<b>Total Capital Requirements</b>	<b>2,513,002,316</b>	<b>2,900,524,720</b>



HSBC Savings Bank (Philippines), Inc.  
December 2021 AFS vs FRP Reconciliation  
Balance Sheet

		FRP		AFS		FRP vs AFS	RECONCILING ITEMS	BALANCE	UNACCOUNTED
Description	Code	Balance	Code	Description	Balance				
(1) Cash on Hand	105050000000000000	148,408,421.82		Cash on Hand	148,337,127.08	71,294.74	Exchange Rate Difference (BSP Rate vs Internal Rate)	71,294.74	(0.00)
(3) Due from Bangko Sentral ng Pilipinas	105150000000000000	3,146,997,046.18		Due from BSP	3,146,997,297.71	(251.53)		(251.53)	0.00
							Impairment Allowance - SPURA in AFS	(251.53)	
(4) Due from Other Banks	105200000000000000	1,616,742,741.15		Due from other banks	1,594,542,959.15	22,199,782.00		22,199,782.00	(0.00)
							Bills Payable in FRP	18,360,821.70	
							Due from Bangko Sentral ng Pilipinas in FRP		
							AFS Adjustments	-	
							Exchange Rate Difference (BSP Rate vs Internal Rate)	3,838,960.30	
(5) Financial Assets Held for Trading (HFT)	110000000000000000	-		Financial assets held at FVPL	7,383.22	(7,383.22)	FRP Adj - Derivatives with Positive Fair Value Held for Trad	(7,383.22)	
(7) Available-for-Sale (AFS) Financial Assets, net	195200000000000000	7,465,884,386.81		Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)	7,465,884,386.82	(0.01)	Rounding off difference	(0.01)	-
(11) Loans and Receivables portfolio, net (excluding RRP)	195400000000000000	1,808,246,919.00		Loans and receivables, net	1,276,748,017.59	531,498,901.41		531,498,901.41	(0.00)
							Interbank loans receivable and Securities Purchased under Resale Agreements in AFS	594,098,440.00	
							Due from Bangko Sentral ng Pilipinas in AFS	-	
							Due from Other Banks in AFS	-	
							Off balance sheet in AFS (provision for GLLP)	(45,000,000.00)	
							Other Assets in FRP	(1,083,449.40)	
							Accrued Interest Income from Financial Assets in FRP	(5,341,113.10)	
							Allowance - Other Assets in FRP	175.46	
							CAIE	(11,175,151.55)	
(12) Loans and Receivables Arising from RA/CA/PR/SLB - Net of Specific Allowance for Credit Losses	195402000000000000	492,141,030.00		Interbank loans receivable and Securities Purchased under Resale Agreements	1,084,770,935.56	(592,629,905.56)		(592,629,905.56)	-
							Loans and Receivables in FRP	(592,630,157.09)	
							Impairment Allowance - SPURA in AFS	251.53	
(16) Accrued Interest Income from Financial Assets - Net	195452000000000000	21,985,323.84				21,985,323.84		21,985,323.84	-
							Loans and receivables in AFS	18,581,344.99	
							Accrued Expenses in AFS	3,403,978.85	
(18) Bank Premises, Furniture, Fixture and Equipment - Net	195500500000000000	31,719,574.73			33,842,733.04	(2,123,158.31)	AFS Adjustment (IFRS 16)	(2,123,158.31)	-
				Property and Equipment - net	5,068,988.63				
				Right-Of-Use Assets	28,773,744.41				
(19) Real and Other Properties Acquired - Net	195501000000000000	3,249,630.30				3,249,630.30		3,249,630.30	-
							Other Assets (tagged as Assets Held for Resale) in AFS	5,145,060.65	
							FRP Adjustment - record ROPA depreciation	(1,895,430.35)	
(24) Other Assets - Net	195551000000000000	98,641,909.26		Other Assets	94,584,305.65	4,057,603.61		4,057,603.61	0.00
							Loans and receivables in AFS	1,083,260.74	
							Real and Other Properties Acquired in FRP	(5,145,060.65)	
							Accrued Expenses and Other Liabilities in AFS	2,991,817.31	
							Exchange Rate Difference (BSP Rate vs Internal Rate)	(1.00)	
							FRP Adj - manual adjustment of unposted	5,117,298.16	
							CAIE	2,926,289.05	
							Pensions and Other Post Retirement Benefit Obligations in FRP	(2,916,000.00)	
TOTAL ASSETS		14,834,016,983.09	TOTAL ASSETS		14,845,715,145.81				

FRP				AFS		FRP vs AFS	RECONCILING ITEMS	BALANCE	UNACCOUNTED
	Description	Code	Balance	Code	Description	Balance			
(3)	Deposit Liabilities	215000000000000000	12,978,045,950.21		Deposits	12,972,881,164.00	5,164,786.21	5,164,786.21	0.00
								Exchange Rate Difference (BSP Rate vs Internal Rate)	5,208,284.11
								Other Liabilities in FRP	(43,497.90)
(5)	Bills Payable	220100000000000000	147,832,871.70		Bills Payable	129,355,235.48	18,477,636.22	18,477,636.22	-
								Due from other banks in AFS	18,360,821.70
								Exchange Rate Difference (BSP Rate vs Internal Rate)	116,814.52
(12)	Accrued Interest Expense on Financial Liabilities	225200000000000000	7,107.81				7,107.81	7,107.81	-
								Accrued expenses & other liabilities in AFS	-
								Exchange Rate Difference (BSP Rate vs Internal Rate)	7,107.81
(13)	Finance Lease Payment Payable	225250000000000000	23,802,083.16		Lease Liabilities	12,197,021.46	11,605,061.70	11,605,061.70	-
(15)	Due to Treasurer of the Philippines	230050000000000000	12,711,718.59				12,711,718.59	12,711,718.59	-
(16)	Treasurer/Cashier/Manager's Checks	230100000000000000	8,460,823.28		Cashier's order	9,173,466.87	(712,643.59)	(712,643.59)	(0.00)
(22)	Due to Philippine Deposit Insurance Corporation	230400000000000000	12,749,000.00				12,749,000.00	12,749,000.00	-
(24)	Income Tax Payable	230500000000000000	501,222.89		Income Tax Payable	789,981.14	(288,758.25)	(288,758.25)	-
								AFS tax adjustment	(288,758.25)
					Financial Liabilities at Fair Value through Profit or Loss in AFS	21,087.58	(21,087.58)	(21,087.58)	-
(25)	Other Taxes and Licenses Payable	230550000000000000	113,783,624.66		Accrued Expenses and Other Liabilities	123,319,004.63	(18,676,690.82)	(18,676,690.82)	0.00
(26)	Accrued Expenses	230600000000000000	7,937,953.65					Cashier's order in AFS	712,643.59
(27)	Unearned Income	230650000000000000	16,292,488.95		Deferred Tax Liabilities	9,141,310.85		Exchange Rate Difference (BSP Rate vs Internal Rate)	2,557.94
(28)	Deferred Tax Liabilities	230700000000000000	16,644,212.38					Due to Treasurer of the Philippines in FRP	(12,710,464.05)
			6,760,292.03					Due to Philippine Deposit Insurance Corporation in FRP	-
(29)	Provisions	230750000000000000	-					AFS Adjustments	(2,381,018.82)
		230751000000000000						Other Assets in FRP	2,991,817.31
		230759000000000000						Accrued Interest Expense on Financial Liabilities in FRP	(7,106.38)
(30)	Broker Customer Accounts for	230780000000000000	-					FRP Adjustment - Loans and receivables in AFS - pertains to	16,644,210.59
(31)	Other Liabilities	230800000000000000	66,148,677.65					AFS Adjustments	(11,244,916.48)
								FRP Adj	(9,345,021.15)
								Accrued Interest Income from Financial Assets	(3,403,978.85)
								Deposits in AFS	43,497.90
								Financial Liabilities at Fair Value through Profit or Loss in AFS	21,087.58
TOTAL LIABILITIES			13,297,894,402.30	TOTAL LIABILITIES		13,256,878,272.00			
(1)	Paid in Capital Stock	305000000000000000	1,492,000,000.00		Capital Stock	1,492,000,000.00	-		
(5)	Retained Earnings	315000000000000000	106,212,222.80			155,863,050.25	(49,650,827.45)	(49,650,827.45)	(0.00)
			78,263,289.12		Retained Earnings - unappropriated	124,197,857.77		AFS Adjustment related to tax and provisions	(2,900,477.60)
(7)	Undivided Profits	315150000000000000	27,948,933.68		Other Reserves	10,915,192.48		Contingent in AFS (off balancesheet item)	(45,000,000.00)
					Retained Earnings - appropriated	20,750,000.00		FRP Adjustment - includes ROPA accumulated depreciation, FX rate differences	(1,750,349.85)
		315150000000000000							
(8)	Other Comprehensive Income	320000000000000000	(62,089,641.99)			(60,110,753.98)	(1,978,888.01)	(1,978,888.02)	0.01
					Net actuarial gain (loss) on	(80,067,033.74)		FRP adjustment for CTA	(92,906.84)
					Net unrealized gain (loss) on	19,956,279.76		AFS Adjustments	(1,885,981.18)
					Cumulative Translation Adjustment	1,084,579.74	(1,084,579.74)	(1,084,579.74)	-
								Other Comprehensive Income in FRP (FRP Adjustment)	(92,906.84)
								AFS Adjustment (difference between FRP CTA calculation)	(991,672.90)
TOTAL EQUITY			1,536,122,580.80	TOTAL EQUITY		1,588,836,876.02			

# HSBC Savings Bank (Philippines), Inc. Income and Expense Accounts FRP vs AFS Reconciliation 2021

FRP		AFS		FRP vs AFS		RECONCILING ITEMS	BALANCE	UNACCOUNTED
Interest Income	505050000000000000	252,465,438.39	Interest Income	266,095,507.76	13,630,069.37		13,630,069.37	-
						Other Income in FRP; Interest Income in AFS	2,454,917.82	
						CAJE taken up in AFS	11,175,151.55	
Interest Expense	605100000000000000	(11,522,828.42)	Interest Expense	(5,909,984.54)	5,612,843.88		5,612,843.88	-
						CAJE taken up in AFS	5,612,843.88	
Dividend Income	510050000000000000	-	Dividend Income	-	-			-
Fees and Commissions Income	510100000000000000	19,860,858.72	Fees and Commission Income	19,860,858.72	-		-	-
Gains/(Losses) on Financial Assets and Liabilities Held for Trading	510150000000000000	32,027,635.30	Net Income/(Loss) Financial Instrument				472,871.77	-
Foreign Exchange Profit/(Loss)	510250000000000000	131,376.13	Held for Trading	7,031,432.53	472,871.77		(145,080.49)	
G/(L) on FV Adj in Hedge Accounting	510350000000000000	-	G/(L) from FA @ FVOCI	13,425,066.60		FRP Adjustment	617,952.27	
G/(L) from Sale/Derecognition of Non-Trading FI	510300000000000000	13,425,066.60	Foreign exchange profit	25,600,450.68		CAJE-CTA		
Other Income	510450000000000000	4,952,072.40	Other Operating Income	9,237,144.79	(35,248,415.56)		(35,248,415.56)	-
G/(L) from Sale/Derecognition of Non-FA	510400000000000000	952,758.51				Other Income in FRP; Credit and Impairment Losses in AFS	(32,793,497.74)	
Recovery on Charged-Off Assets	700150000000000000	38,580,729.44				Other Income in FRP; Interest Income in AFS	(2,454,917.82)	
						CAJE Taken up in AFS	-	
Compensation/Fringe Benefits	610050000000000000	(73,028,808.59)	Compensation costs	(83,510,238.99)	(10,481,430.40)		(10,481,430.40)	-
						Compensation Expense in FRP; Taxes and Licenses in AFS	(1,521,263.72)	
						Other Admin Exp in FRP; Compensation Expense in AFS	1,482,890.14	
						CAJE taken up in AFS	(10,443,056.82)	
Taxes and Licenses	610100000000000000	(19,418,654.70)	Taxes and licenses	(24,535,130.43)	(5,116,475.73)		(5,116,475.73)	-
						Other Admin Exp in FRP; Taxes and Licenses in AFS	(4,447,009.96)	
						Compensation Expense in FRP; Taxes and Licenses in AFS	(1,164,173.82)	
						CAJE Taken up in AFS	494,708.05	
Fees and Commissions Expenses	610130000000000000	(11,134,116.99)	Fees and Commission Exp	(11,177,139.52)	(43,022.53)		(43,022.53)	-
						Fees and Commission Exp in FRP; Taxes and Licenses in AFS	(43,022.53)	
Other Administrative Expenses	610150000000000000	(137,099,430.02)	Other operating expenses	(65,016,365.89)	(14,159,939.13)		(14,159,939.13)	-
Provisions	610300000000000000	-	Occupancy and equip costs	(30,548,632.00)		Other Admin Exp in FRP; Compensation Expense in AFS	1,202,547.40	
			Share in HO expenses	(55,694,371.26)		Other Admin Exp in FRP; Taxes and Licenses in AFS	4,422,296.57	
						Other admin Exp in FRP; Fees and Commission Exp in AFS	67,735.92	
						CAJE Taken up in AFS	(19,852,519.02)	
Depreciation/Amortization	610200000000000000	(25,832,153.56)	Depreciation and amortization	(27,059,692.97)	(1,227,539.41)		(1,227,539.41)	-
						FRP Adjustment	299,200.07	
						CAJE Taken up in AFS	(1,526,739.48)	
Impairment Losses	610250000000000000	-	Credit and Impairment Losses	9,390,156.15	32,793,497.74		32,793,497.74	-
Provision for Credit Losses on Loans and Receivables	700050000000000000	(1,538,199.93)				Other Income in FRP; Credit and Impairment Losses in AFS	32,793,497.74	
Bad Debts Written Off	700100000000000000	(21,865,141.66)						
Share in the Profit/(Loss) of Unconsolidated	805050000000000000	-			-			
Income Tax Expense	615000000000000000	(33,007,667.94)	Income Tax Expense	(32,854,392.09)	153,275.86		153,275.86	-
						CAJE Taken up in AFS	153,275.86	
<b>NET INCOME</b>		<b>27,948,933.68</b>	<b>NET INCOME</b>	<b>14,334,669.54</b>	<b>(13,614,264.14)</b>			

## Regulatory Adjustments to CET1 Capital

	2021	2020
Unsecured DOSRI	4,963,692	8,919,377
Unsecured loans, other credit accommodations and guarantees granted to subsidiaries	-	169,644,538
Deferred tax assets	-	-
Goodwill	-	-
Other intangible assets	-	-
Other equity investment	-	-
Other capital adjustments	-	-
Defined benefit pension fund liabilities	-	-
<b>TOTAL</b>	<b>4,963,692</b>	<b>178,563,915</b>

## Total credit exposure after risk mitigation broken down by type of exposures & by risk bucket

As of December 31, 2021			
	On Balance Sheet	Off-Balance Sheet	Total
Below 100%	14,286,597,045		14,286,597,045
100% and Above	519,845,161	11,989	519,857,150
<b>TOTAL</b>	<b>14,806,442,206</b>	<b>11,989</b>	<b>14,806,454,195</b>

As of December 31, 2020			
	On Balance Sheet	Off-Balance Sheet	Total
Below 100%	12,600,962,052		12,600,962,052
100% and Above	700,012,156	4,328,119	704,340,275
<b>TOTAL</b>	<b>13,300,974,208</b>	<b>4,328,119</b>	<b>13,305,302,327</b>

## Total credit risk-weighted assets broken down by type of exposures

As of December 31, 2021			
	On Balance Sheet	Off-Balance Sheet	Total
Below 100%	1,051,634,626		1,051,634,626
100% and Above	548,378,857	11,989	548,390,846
Covered by CRM	5,023,589		5,023,589
Excess GLLP	(48,361,282)		(48,361,282)
<b>TOTAL</b>	<b>1,556,675,791</b>	<b>11,989</b>	<b>1,556,687,780</b>

As of December 31, 2020			
	On Balance Sheet	Off-Balance Sheet	Total
Below 100%	1,075,566,741		1,075,566,741
100% and Above	733,438,349	4,328,119	737,766,468
Covered by CRM	6,024,764		6,024,764
Excess GLLP	(46,165,826)		(46,165,826)
<b>TOTAL</b>	<b>1,768,864,029</b>	<b>4,328,119</b>	<b>1,773,192,147</b>

**Total market risk-weighted assets broken down by type of exposures**

<b>Nature of Item</b>	<b>2021</b>	<b>2020</b>
Using Standardized Approach		
Interest Rate Exposures	-	-
Equity Exposures	-	-
Foreign Exchange Exposures	36,909,822	118,863,076
Options	-	-
Sub-total (Sum of A.1 to A.4)	36,909,822	118,863,076
Using Internal Models Approach	-	-
<b>TOTAL MARKET RISK-WEIGHTED ASSETS 1/ (Sum of A.5 and B)</b>	<b>36,909,822</b>	<b>118,863,076</b>

**Operational Risk-Weighted Assets**

	<b>2021</b>	<b>2020</b>
<b>Operational Risk</b>	919,404,714	1,008,469,497