



HSBC
Savings Bank

HSBC Savings Bank (Philippines), Inc.
2018 Annual Report



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 fulfill their family's dreams and aspirations.

Our Mission

Connecting Our Customers to Opportunities

To connect our customers to local and global opportunities (as part of one of the world's largest banking and financial services organizations) in order to help fulfill their hopes and dreams, and realize their ambitions.

Creating the Healthiest Human System

To strive for an inclusive environment, which allows our people to be confident when speaking up, act with courageous integrity, and treat our customers and our colleagues fairly at all times.

Supporting Our Communities and Shareholders

To continue setting the industry standard in not only managing financial crime but also in practicing good conduct and performance to build trust and confidence with our regulators, shareholders and the communities we serve.

About HSBC Savings Bank (Philippines) Inc.

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

HSBC is one of the world's largest and most successful banking and financial services organizations, with a proud history of serving customers and communities for more than 150 years. HSBC serves about 38 million customers through four Global Businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking through a network covering 66 countries and territories in Europe, Asia, the Middle East and Africa, North America and Latin America. Throughout its history, HSBC has been where the growth is, serving customers and communities by connecting them to opportunities, helping people fulfill their hopes and dreams and realize their ambitions.

Who We Are

In January 2001, HBAP MNL purchased PCI Savings Bank, Inc. and renamed it HSBC Savings Bank (Philippines), Inc.

Despite its three-branch network, HBPH is ranked 13th among fifty-four thrift banks in the country in terms of Total Deposit Liabilities and Total Assets based on BSP's Banking Statistics report on Thrift Banks in the Philippines for the year ended 2018.. [Source: http://www.bsp.gov.ph/banking/psoc_tb/assets.htm; and http://www.bsp.gov.ph/banking/psoc_tb/deposits.htm]

Our Business Model

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

To support the achievement of our clients' dreams and ambitions, we empower our people through streamlining initiatives and developing their future skills while relying on the 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 14 Automated Teller and EasyPay Machines, online and mobile banking and our 24/7 Customer Contact Centre.

Our Financial Highlights

Profitability (in PHP 000)	2018	2017
Total Net Interest Income	501,478	499,460
Total Non-Interest Income	42,806	84,849
Total Non-interest Expenses	340,464	391,807
Pre-provision profit	182,083	183,314
Allowance for credit losses	9,529	15,397
Net Income	172,554	167,917

Balance Sheet (in PHP 000)	2018	2017
Liquid Assets	13,477,219	15,230,039
Gross Loans	2,509,923	2,766,064
Total Assets	13,628,671	15,358,164

Consolidated (in PHP 000)	Current Year	Previous Year
Deposits	11,710,932	13,378,621
Total Equity	1,668,430	1,763,741

Selected Ratios	Current Year	Previous Year
Return on average equity	8.39%	6.20%
Return on average assets	0.94%	0.69%
Capital Adequacy Ratio	33.15%	31.59%

Others (in PHP 000)	Current Year	Previous Year
Cash dividends declared	115,000,000	226,000,000

Full Time Employees (FTE)	48	52
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The President's Report

The year 2018 was unexpectedly a challenging one for HBPH and the country as a whole. Following a strong first quarter, the economy began to slow as a result of weak agricultural output and higher fuel prices. Inflation increased throughout most of the year, peaking at 6.7% at the start of the fourth quarter, more than double on a year-on-year basis.

I am pleased to report that despite the inflationary pressures seen in the market, HBPH was not significantly affected. This is a testament to HBPH's strategic decision to consistently maintain its conservative credit appetite that prevented any significant impact to our loan portfolio. Revenue challenges were softened through gains from operational efficiencies as well as a reversal of penalty charges relating to uncertain tax provisions brought about by a favorable ruling of the Makati Regional Trial Court in the second quarter of 2018.

HBPH saw the year end with a Net Profit Before Tax of PHP172.6 million, a 3% growth from the previous year's PHP167.9 million. Net Income After Tax for the year ended strong at PHP132.9 million (19% better than 2017) with a return on average equity of 8.39%. Total Loans and Receivables stood at PHP2.5 billion while our Deposit Liabilities ended at PHP11.7 billion.

All liquidity and capital ratios remained above prescribed limits with Total Capital Adequacy Ratio at 33.15% while Common Equity Tier 1 Ratio remained at 31.59%.

Governance remained strong with HBPH again receiving the highest possible CAMELS rating of 5 in the Bangko Sentral ng Pilipinas (BSP)'s 2018 Report of Examination for the third straight year in a row.

For 2019, we will continue to focus on relationship-led personal lending and better sales management in the branches by adopting the best practices of the Multi-Sales Force team. We will also leverage on the upcoming HSBC Premier campaign in the second half of the year that will reinforce our market position in serving wealth management needs of the mass affluent segment of the population.

Our Principles as a Bank

Throughout HBPH's 18-year history, we have 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

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.

Our values of being **open**, **connected** and **dependable** go to the heart of our approach. 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.

We are:

Dependable and we do the right thing

- Standing firm for what is right, delivering on commitments, being resilient and trustworthy
- Taking personal accountability, being decisive, using judgment and common sense, empowering others

Open to different ideas and cultures

- Communicating openly, honestly and transparently, welcoming challenge, learning from mistakes
- Listening, treating people fairly, being inclusive, valuing different perspectives

Connected to customers, communities, regulators & each other

- Building connections, being aware of external issues, collaborating across boundaries
- Caring about individuals and their progress, showing respect, being supportive and responsive

Our Behavioral Standards

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

- **Good judgment** - The importance of strong principles-based judgment is recognized and of decision making which considers the wider picture in fighting financial crime and in maintaining good conduct. 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:

- to demonstrate openness and accessibility in accepting customer feedback and complaints;
- to have robust procedures to ensure the proper handling and, where appropriate, prompt rectification of customer complaints;
- to demonstrate HSBC's commitment to service excellence, truth and fair dealing with its customers;
- to ensure that customer complaints are dealt with effectively and quickly, and;
- to 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 HBPH.

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) Initial Handling; (2) Investigation; (3) Acknowledgement; and (4) Final Reply.

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.

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.

All employees are responsible for the management of risk, with the ultimate accountability residing with the Board. We have a strong risk culture, which 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.

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 defines our desired forward-looking risk profile, and informs the strategic and financial planning process.

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 subject the bank to regulatory stress testing to help ensure the strength and resilience of HBPH.

Our top and emerging risks framework enables us to identify current and forward-looking risks so that we may take action to either prevent them materializing or limit their effect. Top risks are those that may have a material impact on the financial results, reputation or business model of HSBC in the year ahead. Emerging risks are those that have large unknown components and may form beyond a one-year horizon. If these risks occurred, they could have a material effect to HBPH.

Our Risk Appetite

We define Risk Appetite as the type and quantum of risks that HBPH is willing to accept in achieving its medium and long-term strategic goals. Risk Appetite provides the anchor between the business, strategy, risk and finance, enabling senior management to optimally allocate capital to finance strategic growth within tolerated risk levels. It provides a view on a medium to long-term horizon, and is not be used to monitor performance against the Annual Operating Plan.

It 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 Risk Appetite Statements (“RAS”), a written articulation of the aggregate level and types of risk that we as an organization are willing to accept in order to achieve its business objectives. 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 Crime Risk

We have a fundamental responsibility to help protect the integrity of the financial system. HSBC’s scale and global footprint put us in a unique position where we can make a positive contribution and be at the forefront of the fight against financial crime. We have made significant progress in our journey to upgrade our ability to fight financial crime. In line with this, we aspire to set the industry standard for knowing our customers and detecting, deterring and protecting against financial crime.

Credit Risk

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:

- i. **measured** as the amount which could be lost if a customer or counterparty fails to make repayments. In the case of financial investments, 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;
- ii. **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
- iii. **managed** through a robust risk control framework which outlines clear and consistent policies, principles and guidance for risk managers.

Operational Risk

Operational risk is the risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people and systems or from external events. We utilize our Operational Risk Management Framework (ORMF), a consistent set of tools, processes and activities to ensure that non-financial risks facing HBPH are assessed and managed appropriately and consistently, with the principal focus being on the most material risks.

Reputational Risk

Reputational risk is the risk of failing to meet stakeholder expectations as 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 HBPH. 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.

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 mitigate potential compliance, regulatory, and reputational risks associated with violations of Anti-Money Laundering, Counter Terrorist Financing, 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 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. Regulatory and policy changes are also presented to the Financial Crime Risk Management Committee (FCRMC). HBPH has mandated regular AML and Sanctions 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 HBPH'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 informed by the relevant policies, guidance, and procedures that are owned by the respective financial crime stewardship areas (for example, Anti-Money Laundering, Sanctions, and Anti-Bribery and Corruption).

The Financial Crime Risk and Control Taxonomy has been embedded into 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 Anti-Money Laundering ("AML") / Counter Terrorist Financing ("CTF") Risks HBPH 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 FCC 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 Financial Crime Risk Management Committee (FCRMC). 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 and its Committees

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 Risk Management Meeting (RMM)

The Risk Management Meeting (RMM) is a formal governance committee established to provide recommendations and advice to the Chairman on enterprise-wide management of all risks, including key policies and frameworks for the management of risk, within HBPH as set out in HSBC's Enterprise Risk Management ("ERM") Framework.

The RMM will serve as the governance body for enterprise-wide risk management with particular focus on risk culture, risk appetite, risk profile, stress testing and integration of risk management into HBPH's strategic objectives. The RMM is 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 Volcker Rules in relation to the activity of HBPH; (3) to review sub-committee reports and matters for escalation; (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.

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 RMM shall be appointed by the Board and shall not be the chairperson of the Board of Directors, or any other board-level committee. The Committee shall possess a range of expertise and adequate knowledge on risk management issues and practices. It shall have also access to independent experts to assist it in discharging its responsibilities.

The Audit Committee

The Board of HBPH has delegated to the Audit Committee oversight of matters relating to financial reporting and internal financial controls, in particular reviewing: (1) the integrity of the financial statements, Pillar 3 disclosures (where relevant), formal announcements and disclosures relating to financial performance; (2) the effectiveness of Internal Audit and the external audit process; and (3) the effectiveness of internal financial control systems. The Committee (including the Chair) shall comprise at least three members, all of whom shall be non-executive directors, majority of whom shall be independent directors.

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.

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 material related party transactions in 2018.

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.

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 Committee meeting where they share their audit plan and most recent audit findings. Internal Audit is also invited as a guest in the monthly Risk Management Meeting ("RMM") Committee.

Regulatory Compliance, 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 Risk Management Meeting and Audit Committee meetings.

Our 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 put 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.

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 2018

Share Holder	Type of Directorship	Age	Nationality	Tenure as Director	Shares Held	Voting %	Effective Date
Patrick Henry A Carlos	Executive	48	Filipino	2 years	1		30-Sep-16
Horace Kwan Hor Chau	Non-Executive	57	Australian	4 years	1		19-Dec-14
Colin A Drummond	Non- Executive	46	British	2 years	1		26-Jan-17
Tito B Ebrada	Independent	66	Filipino	7 years	1		26-Jul-11
Graham D FitzGerald *	Non- Executive	45	British	5 months	1		22-Oct-18
The Hongkong and Shanghai Banking Corporation Limited					149,199,995	99.99	05-Apr-01

* Also the Nominee of The Hongkong and Shanghai Banking Corporation Limited in the Board

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. The region's 2018 Capital Plan however provides guidance to upstream via dividends all excess capital that may not be required in the near future. In 2018, a total of PHP115,000,000 was paid out.

Our Performance & Assessment Approach

At HBPH, we believe that good performance conversations, are about quality one-to-one conversations and lots 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.

Board, Committee and Individual Director Performance

Directors are expected to perform their duties diligently, with integrity and in a manner which continues to create sustainable value for the shareholder, and in compliance with the duties and obligations imposed upon them by HBPH's By-Laws and the general law. The approach used to review the performance of the Board as a whole and of individual directors is set out below.

On an annual basis, the Corporate Secretary will circulate an annual effectiveness survey, which addresses various performance criteria, including but not limited to:

- The effectiveness of the collective Board/Committee and its oversight and contribution to HBPH.
- Its relationship with management.
- The quality of information provided to and by the Board.
- The effectiveness of its engagement with and involvement in the formulation of HBPH's strategy and policies.

Following collation of individual responses to the questionnaire, the Chairman will lead a Board discussion of these findings and any proposed remedial actions and, as appropriate, will discuss the findings with individual directors.

In addition, the Chairman may conduct annual one-on-one meetings with individual directors to discuss their individual performance and contribution to identify any ways of making individual directors more effective, should the need arise.

Our Remuneration Policy

We provide our Board of Directors and employees with competitive remuneration packages to attract, motivate and retain highly qualified individuals in HBPH.

In-line with HSBC's practice relating to payment of directors' service fees, the independent directors shall be 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 HSBC.

For HBPH bank employees including its senior executives, 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. This strategy recognizes people who are committed to the sustainable long-term performance of HBPH in the interests of our shareholders and other stakeholders.

HSBC's reward strategy is designed to include a competitive reward package that includes a mix of fixed pay, variable pay and employee benefits. The strategy is based on the following **key principles**:

- **Alignment to performance at all levels:**
We assess performance at the group, business and individual level, taking into account both **'what' has been achieved** and **'how' it was achieved**. The 'how' helps ensure that performance is sustainable in the longer term and takes into account alignment to HSBC values and adherence to risk / compliance standards.
- **Market Benchmarks**
As a bank, we focus on 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. Any benchmarking should be done in a way that is consistent with competition law requirements.
- **Regulations:**
Compliance with relevant regulations and ensuring that these are applied at a high standard across all of our countries and territories

As one aspect of employment, reward is designed to support rather than be the overriding focus of our employment proposition at HSBC. Employees' compensation gets reviewed on an annual basis during the 'on-cycle' process, also known as Annual Pay Review. Any activity impacting reward outside this process is known as 'off-cycle.'

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

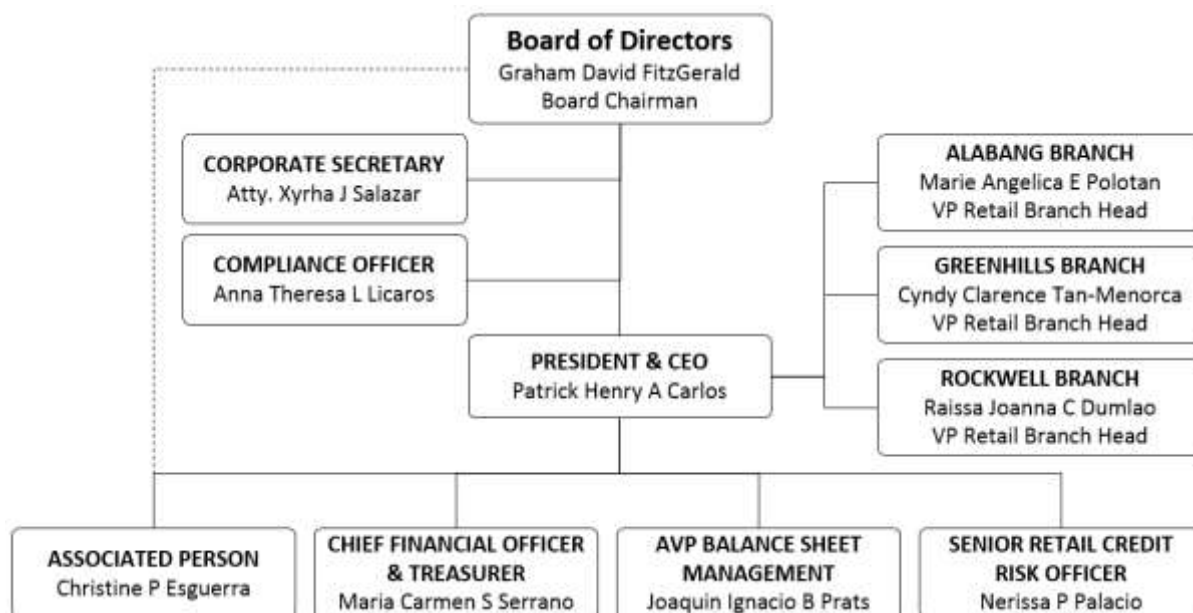
Driving Corporate Social Responsibility

We recognized that our responsibilities as a bank not only cover our customers, shareholders, employees and regulators but also our communities and the environment. Our activities in Corporate Sustainability support those parts of society that are most impacted of some of the fundamental shifts impacting the global social, economic, and environmental balance.

HSBC's sustainability strategy will be aligned with HSBC's purpose and strategy and focus on a number of priorities in which HBPH can make a difference. Our aspiration is to support sustainable growth, with a particular focus on three priorities:

- **Quarterly Blood Letting Drive** – HBPH continued its partnership with St. Luke's Medical Hospital in providing opportunities for bank personnel to donate to the hospital's blood bank.
- **Water Program (River Clean-up and Quality Testing)** – In September 2018, HBPH staff together with other HSBC personnel in the country participated in three separate river clean-up and quality testing activities with the aim of setting the foundation for a long-term revival program of the rivers of Metro Manila.
- **Financial Literacy (Fairer Tales)** – In 2019, we intend to pilot "Fairer Tales" to help parents, guardians and teachers give children a head start on building financial sense. HSBC partnered with the award winning children's author Emma Dodd to create 'Fairer Tales' a book with a modern take on traditional fairy tales. The book twists the traditional stories of Cinderella, Sleeping Beauty and Rapunzel so that the princesses no longer rely on Prince Charming to save them. Instead, it's their financial acumen that gets them through, setting a positive example for both young girls and boys about how women can achieve goals on their own.

Our Organizational Structure



Board and Committee Meetings

Name of Director	Board of Directors		Risk Management		Audit Committee	
	Attended	%	Attended	%	Attended	%
Jose Arnulfo A Veloso ¹ <i>Chairman, Non-Executive</i>	6 out of 7	75%				
Tito B Ebrada <i>Independent Director</i>	7 out of 8	88%	10 out of 10	100%	4 out of 4	100%
Ma Theresa X Loanzon ² <i>Independent Director</i>	5 out of 5	100%	6 out of 7	86%	2 out of 3	67%
Horace Kwan Hor Chau <i>Vice Chair, Non-Executive</i>	8 out of 8	100%				
Patrick Henry A Carlos <i>Executive Director</i>	8 out of 8	100%				
Kristopher Daniel Werner ³ <i>Non-Executive Director</i>	7 out of 8	88%				
Colin Andrew Drummond <i>Non-Executive Director</i>	6 out of 8	75%	7 out of 10	70%	2 out of 4	50%
Graham David FitzGerald ⁴ <i>Non-Executive Director</i>	2 out of 2	100%				
Total Meetings Held During the Year	8	91%	10	85%	4	72%

¹ Resigned in November 2018

² Resigned in August 2018

³ Resigned in January 2019

⁴ Appointed in October 2018

Our Board of Directors

GRAHAM DAVID FITZGERALD

Director

British, 45 years old

Director since 2018

- President & CEO HSBC Philippines since 2018
- Chairman & Director, HSBC Finance (Brunei) Berhad
- Senior Executive, HSBC International
- 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

Australian, 57 years old

Vice Chairman and Director since 2014

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 Taiwan

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

Director

Filipino, 48 years old

Director and President & CEO, HSBC Savings Bank since 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

COLIN ANDREW DRUMMOND

Director

British, 46 years old

Director since 2017

- Chief Control Officer, Retail Banking & Wealth Management Asia Pacific, HSBC Hong Kong
- 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

TITO B EBRADA

Independent Director

Filipino, 66 years old

Independent Director since 2011

- Independent Director, HSBC Insurance Brokers since 2014
- SVP Operations & Processing, HSBC Philippines until June 2008
- Director and President & CEO, HSBC Savings Bank until July 2004
- VP Banking Operations, HSBC Philippines until September 2001
- VP Area Operations, HSBC Philippines until January 2001
- VP Cebu Branch, HSBC Philippines until July 1997
- Head of IT, HSBC Jakarta Indonesia until August 1995
- OIC Electronic Data Processing, HSBC Philippines until August 1991
- Education: BS Business Administration, University of San Carlos Cebu City

Our Senior Management

PATRICK HENRY A CARLOS

Director

Filipino, 48 years old

Director and President & CEO, HSBC Savings Bank since 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, 48 years old

- Chief Financial Officer & Treasurer, HSBC Savings Bank since 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
- Licensed Certified Public Accountant
- Education: BSC Major in Accountancy, Assumption College

ANNA THERESA L LICAROS

Compliance Officer

Filipino, 34 years old

- SVP and Head of Regulatory Compliance since 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

NERISSA P PALACIO

Senior Retail Credit Risk Officer

Filipino, 40 years old

- SVP, Retail Banking & Wealth Management Risk, HSBC Philippines since November 2008
- VP, Acquisition & Behavioral Risk Management, HSBC Philippines until October 2008
- AVP, Acquisition and Behavioral Risk Management until May 2006
- HSBC Representative to the Board of Directors of TransUnion Information Solutions, Inc. from June 2014 to February 2017
- Manager, Special Projects, HSBC Philippines until September 2004
- Resident Management Trainee, HSBC Philippines until April 2003
- Cards Marketing, Personal Financial Services, HSBC Philippines until April 2002
- Education: BS Management Engineering, Ateneo De Manila University
CFA Charter, CFA INSTITUTE

JOAQUIN IGANCIO B PRATS

AVP BALANCE SHEET MANAGEMENT

Filipino, 27 years old

- AVP Balance Sheet Management HSBC Savings Bank since 2017
- 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 Advance, 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, Easy Payment 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, Easy Payment Machines, Online Banking, Mobile Banking and 24/7 Customer Contact Center.

Our Website

www.hsbc.com.ph

HSBC Savings Bank Branch Directory

- **HSBC SAVINGS BANK ALABANG**, Unit 1, The Commercial Complex, Madrigal Avenue, Ayala Alabang Village; (+632) 8581-8196
- **HSBC SAVINGS BANK GREENHILLS**, G/F Greenhills Shopping Center, Ortigas Avenue, San Juan City; (+632) 8581-7230
- **HSBC SAVINGS BANK ROCKWELL**, R1 Level, Space 142, Lopez Drive, Power Plant Mall, Rockwell Center, Makati City; (+632) 8581-8455
- **HSBC SAVINGS BANK (Branch Lite)**, 7/F HSBC Centre, 3058 Fifth Avenue West, Bonifacio Global City, Taguig City; (+632) 8581-8401