

# **HSBC Bank Malta p.l.c.**

## **Remuneration Policy**

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## **1. Purpose and Scope**

- 1.1. The Remuneration Policy ('the Policy') is designed to reward competitively the achievement of long-term sustainable performance, motivate and attract the very best people who are committed to develop their career with HSBC Bank Malta plc ('the Bank') while at the same time acting in the best interest of our customers.
- 1.2. This Policy is applied to all employees of the Bank.

## **2. Governance**

- 2.1. The Remuneration and Nomination Committee ('RemNom') oversees the Policy and its application to the Bank's global businesses, global functions, Digital Business Services ('DBS') and country management as well as to all employees. All members of the Committee are independent non-executive Directors of HSBC Bank Malta plc.
- 2.2. RemNom is responsible for recommending to the HSBC Bank Malta plc Board of Directors ('Board') the approvals of the total compensation spend within an annual operating plan.
- 2.3. The Board is responsible for approving the total variable pay pool.
- 2.4. The Board is responsible for approving the general terms and conditions of variable pay awards of material risk takers (MRTs).
- 2.5. The Chief Risk Officer would consult with the Compliance function for identified risks and regularly informs RemNom of risk related issues across the Bank to ensure that such matters are considered by RemNom in applying the Policy and making remuneration decisions for the recommendation to the Board. The Chief Risk Officer also updates the Board on the Bank's performance against the Risk Appetite Statement, which describes and measures the amount and types of risk that the Bank is prepared to take in executing its strategy. The Board uses these updates in applying the Policy and considering the risk related adjustments made to the variable pay pool, to ensure that return, risk and remuneration are aligned.
- 2.6. RemNom periodically reviews, but not less than once a calendar year, the adequacy and effectiveness of the Remuneration Policy and ensures that the Policy meets the commercial requirement to remain competitive, is affordable, allows flexibility in response to prevailing circumstances and is consistent with effective risk management after consulting with Compliance function.

## **3. Remuneration Strategy**

- 3.1. Under the remuneration framework, remuneration decisions are made based on a combination of business results, performance against objectives set out in performance scorecards and general individual performance. In addition, they factor in adherence to the HSBC Purpose & Values, business principles, the Bank's risk-related policies and procedures, and Global Standards.

- 3.2. The Bank's Risk Appetite Statement (approved by the Board on the advice of the Risk Committee) is a key component of our risk management framework, and informs the Bank's financial reporting plan. The performance scorecards of the Executive Committee align business objectives based on the financial reporting plan, and the risk objectives based on the qualitative and quantitative metrics in the Risk Appetite Statement. These performance scorecards are cascaded from the Bank's Executive Committee to business lines and functions.
- 3.3. At the end of each performance year, business results and performance against scorecard objectives, including risk objectives, form the basis of remuneration decisions including the review and approval of the total variable pay pool by RemNom and the Board. This ensures risk management is embedded and forms an integral part of all our activities.
- 3.4. The performance and remuneration of individuals in control functions is assessed according to the objectives specific to the functional role they undertake, to ensure their remuneration is determined independent of the performance of the business areas they control.
- 3.5. Key principles of the remuneration framework include:
  - Assessment of performance with reference to clear and relevant objectives set within a performance scorecard framework;
  - The use of behaviour and performance ratings for all employees which directly influence pay outcomes;
  - Positive adjustments to variable pay for individuals who have exhibited exemplary conduct who went the extra mile to courageously do the right thing;
  - Our global recognition program, where our employees can recognise peers and reward positive behaviour in real-time;
  - A focus on total compensation (fixed plus variable pay) with variable pay (namely annual bonus) differentiated by performance and adherence to HSBC values;
  - The use of discretion to assess the extent to which performance has been achieved; and
  - Deferral of a significant proportion of variable pay (where appropriate) to tie recipients to the future performance of the Bank and align the relationship between risk and reward.
- 3.6. Within this framework, risk alignment of the remuneration structure is achieved through the following measures:
  - Risk and Compliance is a critical part of the assessment process in determining the performance of all employees, especially senior executives and material risk takers.
  - Adherence to HSBC Purpose and Values is a pre-requisite for any employee to be considered for variable pay. HSBC values are key to the running of a sound, sustainable bank. Employees have a separate HSBC Values rating which directly influences their overall performance rating, and is therefore considered for their variable pay determinations.
  - For senior executives and certain MRTs, part of their variable pay is deferred (where appropriate) and thereby subject to malus, which allows unvested/unpaid deferred awards to be reduced or cancelled if warranted.

- Employees must not use personal hedging strategies or remuneration or liability related contracts of insurance in connection with any unvested deferred remuneration awards or any vested awards subject to a retention period.
- Instances of non-compliance with risk procedures and expected behavior are escalated for consideration in variable pay decisions, including variable pay adjustments for that performance year and malus of unpaid awards granted in prior years. For MRTs, RemNom and the Board has oversight of such decisions and can make recommendations to the HSBC Group Remuneration Committee to reduce or cancel all or part of any unpaid deferred award.

#### 4. Remuneration Structure

The Bank's reward package consists of three key elements:

- 4.1. **Fixed Pay.** The purpose of the fixed pay is to attract and retain employees by paying market competitive pay for the role, skills and experience required for the business. This includes salary and allowances in accordance with local market practices. These payments are fixed and do not vary with performance.
- 4.2. Salary is determined, calculated and paid in line with internal Bank policies and procedures based on the level of complexity and accountability of the role as described in the corresponding role profile, with the focus on total compensation competitiveness within internal peer group and external market.
- 4.3. Allowances may include, but are not limited to, the statutory allowances which are determined, calculated and paid in line with internal Bank policies and procedures.
- 4.4. **Variable Pay.** Annual awards are made to drive performance based culture. These are based on annual financial and non-financial measures consistent with the medium to long-term strategy of the Bank, shareholder interests and adherence to HSBC values. A portion of the annual award may be deferred, in the form of HSBC Shares, typically vesting over a period of at least 3 years (or at least 4 years for Material Risk Takers, or 5 years in the case of Executive Committee (ExCo) Members.
- 4.5 The bank has taken regards of the **Sustainable Finance Disclosure Regulation (SFDR)** - Regulation (EU) 2019/2088 with respect to variable pay funding as follows:

The variable pay pool is expected to move in line with business performance in line with risk appetite. Variable pay pots are defined for functions and business lines according to the achievements of targets set at beginning of the year. The achievement of such performance takes into account individual behaviour which has an impact on the variable pay awarded. Therefore, limiting the risk of inappropriate behaviour to drive financial performance. The main quantitative and qualitative performance and risk metrics used for assessment of performance include:

- entity and business unit financial performance, including capital and regulatory requirements;
  - current and future risks, taking into consideration performance against the risk appetite statement ('RAS'), annual operating plan and conduct outcomes;
  - fines, penalties and provisions for customer redress, which are automatically included in the Committee's definition of profit; and
- assessment of individual performance with reference to a balanced scorecard of clear and relevant objectives. Objectives included in the performance scorecards of senior

management take into account appropriate measures linked to sustainability risks, such as: reduction in carbon footprint; facilitating financing to help clients with their transition to net zero; employee diversity targets; and risk and compliance measures. A mandatory global risk objective is included in the scorecard of all other employees. All employees receive a behaviour rating as well as a performance rating, which ensures performance is assessed not only on what is achieved but also on how it is achieved.

- 4.6 HSBC also operates an Employee Recognition and Conduct Framework to ensure that personal conduct cases and overdue mandatory training are captured in the performance management process and feed through to the determination of discretionary variable compensation.
- 4.7 The annual variable pay award is discretionary, and is determined and paid in line with internal Bank policies and procedures.
- 4.8 **Benefits.** The Bank may provide benefits in accordance with local market practice. This may include but is not limited to the provision of medical insurance, life insurance and relocation allowances, all of which are determined, calculated and paid in line with internal Bank policies and procedures.

## 5. Reward Review Principles

- 5.1 Determination of any salary increase is at the full discretion of the employee's manager structure, subject to the overall review of RemNom and final approval by the Board.
- 5.2 Determination of the variable pay amount is at the full discretion of the employee's manager structure, subject to the overall review of RemNom and final approval by the Board, and with due consideration of the Bank, department and individual performance, and with a focus on total compensation comparative to internal peers and the external market.

## 6. Performance Management

- 6.1 Employee's individual performance results are assessed through the Performance Management process.
- 6.2 At the beginning of the performance year, both financial and non-financial goals are set for each employee and formalized through the performance scorecard framework.
- 6.3 The Performance Management process focuses around "Continuous Performance Management" ('CPM'), which involves frequent, holistic and meaningful conversations throughout the year between a manager and employee. These conversations should be open, two-way check-ins. They provide an opportunity to discuss progress, provide feedback and recognition, identify any support that may be needed and address any issues that could be affecting the employee's sense of well-being
- 6.4 The achievement of the set goals is the basis for the performance assessment by the employee's manager at the end of the performance year. The assessment is discretionary rather than formulaic.

- 6.5 As a result of this assessment the employee is assigned a performance rating based on a 4-rating scale.
- 6.6 Employees' are also assigned a behaviour rating. This takes into account behavioural aspects of how the performance goals were reached and uses the HSBC Purpose & Values guide as a reference.

## 7. Material Risk Takers

- 7.1 Material risk takers ('MRTs') are identified in accordance with regulatory requirements which outline qualitative criteria (based upon role) for those who take / authorize decisions that can impact the Bank's performance and quantitative criteria laid out in the Annex 2E of the Banking Rule 21. The list of the MRTs is subject to annual review.
- 7.2 The remuneration of the MRTs is subject to review / approval as set below.
- 7.3 Determination of fixed pay is at the full discretion of the MRT's manager based on the Bank's staff schedule, subject to the approval by RemNom and the Board with the focus on total compensation competitiveness within internal peer group and external market where appropriate.
- 7.4 Determination of the variable pay amount is at the full discretion of the MRT's manager subject to approval by RemNom and the Board and with due consideration of the Bank's and individual performance results, with the focus on total compensation comparative to internal peer group and the external market where appropriate. The pay of the Chief Executive Officer is also approved by the Group and Europe Remcos.
- 7.5 The variable pay awards for Material Risk Takers are structured as follows:
- i) Variable pay will be restricted to a maximum of 100% of fixed pay;
  - ii) The higher of any regulatory deferral requirement and the HSBC Group deferral requirement is applied for all variable pay awards; and
  - iii) Under the current deferral policy, variable pay would generally be structured as follows:

Value of Total Variable Pay	Deferral % of variable pay (subject to variance)
Up to €50,000, and no more than 33% of the Total Compensation .	0%
Above €50,000 up to €500,000 or amounts below €50,000 where variable pay is greater than 33% of Total Compensation.	40%
Above €500,000	60%

## Delivery and Retention

Where a deferral rate of 60% or 40% applies, variable pay would be delivered generally as follows:

Delivery of non-deferred variable pay		Delivery of deferred variable pay	
50%	<ul style="list-style-type: none"> <li>Cash paid in March payroll following the performance year end</li> </ul>	50%	<ul style="list-style-type: none"> <li>Deferred Cash</li> <li>Vesting in 4 annual tranches <sup>(3)</sup> (In the case of ExCo Members deferral period would be 5 years):               <ul style="list-style-type: none"> <li>– 25% paid in March payroll one year after the end of the performance year</li> <li>– 25% paid in March payroll two years after the end of the performance year</li> <li>– 25% paid in March payroll three years after the end of the performance year</li> <li>– 25% paid in March payroll four years after the end of the performance year</li> </ul> </li> </ul>

50%	<ul style="list-style-type: none"> <li>• HSBC ordinary shares *</li> <li>• Immediately vested</li> <li>• Subject to 1 year retention <sup>(2)</sup> period</li> <li>• Shares (net of tax and social security) will be transferred to a Nominee Account and will not be available for sale during the retention period<sup>(2)</sup></li> </ul>	50%	<ul style="list-style-type: none"> <li>• Deferred HSBC ordinary shares *</li> <li>• Vesting in 4 annual tranches <sup>(3)</sup>. (In the case of ExCo Members deferral period would be 5 years): <ul style="list-style-type: none"> <li>– 25% paid in March payroll one year after the end of the performance year</li> <li>– 25% paid in March payroll two years after the end of the performance year</li> <li>– 25% paid in March payroll three years after the end of the performance year</li> <li>– 25% paid in March payroll four years after the end of the performance year</li> </ul> </li> <li>• Subject to 12 months retention <sup>(2)</sup> period</li> <li>• Vested shares (net of tax and social security) will be transferred to a Nominee Account and will not be available for sale during the retention period</li> </ul>
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<sup>(2)</sup> Any shares awarded will be subject to retention, after applicable deductions for income tax and social security charges, these will be automatically transferred to a Nominee Account. This is governed under the terms of the Share Plan Account Service in force from time to time and administered by Equate Plus powered by Computershare. Employees will be prevented from selling or transferring the vested shares from the Nominee Account during the applicable retention period of any share award that may be granted.

<sup>(3)</sup> Subject to any other regulatory requirements

\* No dividends are paid for the Ordinary Shares awarded.

iv) Variable pay awards are subject to malus provisions until payment or vest and can be reduced or cancelled in appropriate circumstances.

v) Variable pay awards will be subject to clawback for a minimum period of 7 years from date of grant.

7.6 The payment of the variable pay is not guaranteed by the Bank and is subject to adjustment, reduction, cancellation and/or forfeiture of deferred variable pay awards. The Board can make recommendations to the HSBC Group Remuneration Committee to reduce or cancel all or part of any unvested/unpaid deferred award. Appropriate circumstances include (but are not limited to):

- i) Conduct detrimental to the business including significant loss(es) to the Bank;
- ii) Past performance being materially worse than originally understood;
- iii) Reasonable evidence of misconduct or material error;
- iv) Restatement, correction or amendment of any financial statements;
- v) Improper or inadequate risk management; or
- vi) Any other circumstances required by local regulatory obligations to which the Bank is subject.

The Board can also suspend the payment of deferred awards granted in prior years where the awards are scheduled to be paid before the outcome of a review of a significant incident as determined by the Bank or a notable event as determined by the HSBC Group Remuneration Committee is known.

7.7 In case the MRTs employment with the Bank is terminated by either party, the remaining deferred part of variable pay is cancelled unless the circumstances and termination reason allow to treat departing employee to be entitled to retain some or all their remaining deferred variable pay subject to review and approval by the Board.

7.8 The MRTs remuneration is subject to disclosure on an annual basis as part of the Bank's Annual Report.