

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

## **Remuneration Policy**

April 2025

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## **1. Introduction**

This Policy is applicable to all employees of the HSBC Bank Malta p.l.c (the Bank), including those seconded to HSBC Life Assurance (Malta) Ltd (“HSBC Life”) and HSBC Global Asset Management (Malta) Limited, the Bank’s subsidiaries. In addition, employees who qualify as “key/critical function holders” for HSBC Life in terms of the applicable regulatory requirements under the Solvency II<sup>1</sup> regime are also subject to a supplementary remuneration policy adopted by HSBC Life.

## **2. General Principles**

This Remuneration Policy strives to achieve the following strategic goals:

- Comply with HSBC Bank Malta's p.l.c. (the Bank) economic strategy, objectives and values and with its long-term sustainable interests and results as a whole, and its risk profile. This approach aims not to encourage risk-taking that is not aligned with the risk appetite level approved by the Group or that could negatively impact the Bank or the Group's capital;
- Implement a remuneration policy in line with policies relating to the integration of sustainability risks, in particular in terms of the environment, governance, and diversity and inclusion;
- Ensure that there are no conflicts of interest when implementing and executing the Remuneration Policy;
- Establish remuneration budgets (for fixed and variable pay) that ensure a prudent balance between sound and effective management of financial results and risks and an appropriate level of capital;
- Bonus pots are linked to the sustainable financial performance of the Bank and each of the business lines/functions and the prudent management of risks for the Bank.
- Offer competitive remuneration packages,
- Ensure that the Remuneration Policy is based on the principle of equal pay irrespective of gender for the same work or work of equal value;
- Adopt a total remuneration approach by clearly distinguishing between fixed remuneration elements (base salary, fixed bonuses, etc.), variable remuneration elements (individual discretionary and/or collective variable pay) and any allowances paid in the event of leaving the Bank which must not reward underperformance or failure under any circumstances;
- Establish a balanced and sufficient level of fixed remuneration that does not cause employees to be abnormally dependent on their variable pay;
- Apply a discretionary approach that allows for judgement in assessing individual performance and setting the level of variable pay individually with regard to the performance rating, rather than an automatic approach based on formulae that could

encourage inappropriate behaviour in terms of risk-taking and/or unsuitable sales to our clients;

- Defer a significant portion of variable pay in the form of financial instruments (HSBC shares) in order to better align variable pay with the Group's performance, help retain our employees and meet our regulatory obligations; and
- Not to implement methods or instruments to circumvent regulatory principles in terms of variable pay.

### **3. Governance**

- 3.1. 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 p.l.c.
- 3.2. RemNom is responsible for recommending to the HSBC Bank Malta p.l.c. Board of Directors ('Board') the approvals of the total compensation spend within an annual operating plan.
- 3.3. The Board is responsible for approving the total variable pay pool.
- 3.4. The Board (in its supervisory function) is responsible for approving the general terms and conditions of variable pay awards of certain employees that are captured as Identified Staff as per the Commission Delegated Regulation (EU) 2021/923 which is explained further in section 7 of this document.
- 3.5. The Chief Risk Officer and Compliance function regularly update the Board on on risk related issues across the Bank allowing RemNom to ensure that such matters are considered in making remuneration decisions for the recommendation to the Board. These updates include the Chief Risk Officer updating 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.
- 3.6. 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. The remuneration policy is aligned to regulatory requirements and is consistent with effective risk management: The RemNom Directors consider the various updates at the Board from the Risk and Compliance function when fulfilling their RemNom responsibilities.

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<sup>1</sup> Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (recast) (OJ L 335, 17.12.2009, p.1).

- 3.7 The Chief Compliance Officer and the Chief Risk Officer of HSBC Bank Malta p.l.c. review the main aspects of the remuneration policy proposed by the Human Resources function and endorses it. It ensures that this policy fits in with the general principles of the remuneration policy set by the HSBC Group for all its subsidiaries. Lastly, it gives an opinion on the policy's compliance with local professional standards and the recommendations of banking supervisory bodies in Malta such as Malta Financial Services Authority (MFSA) and the European Central Bank (ECB).
- 3.8 RemNom must ensure that the remuneration policy is subject to an Internal Review at least annually.

#### **4. Remuneration Strategy**

- 4.1. 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 and climate risk-related policies and procedures, and Global Standards. Remuneration adjustments and changes take into account the bank's code of conduct policy and guidelines.
- 4.2. 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 helps inform the Board's assessment of how well management has managed risk.
- 4.3. 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 certain functions. The performance scorecard of the Bank's executives will include sustainability and climate risk objectives to ensure positive impact on business, people and the planet and to establish a robust culture across the Bank.
- 4.4. At the end of each performance year, business results and performance against scorecard objectives, including risk and climate 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.
- 4.5. The performance and reward of individuals in control functions, including risk and compliance employees, are assessed according to a balanced scorecard of objectives specific to the functional role they undertake, which excludes any business financial performance related metrics. This is to ensure their remuneration is determined independent of the performance of the business areas they oversee.

#### 4.6 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 gateway and performance rating for all employees who directly influence pay outcomes;
- Positive adjustments to variable pay for individuals who have exhibited exemplary conduct and 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 a successful Behaviour gateway
- 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.
- Downward adjustment of variable pay awards in circumstances including:
  - detrimental conduct, including conduct that brings HSBC into disrepute;
  - involvement in events resulting in significant operational losses, or events that have caused or have the potential to cause significant harm to HSBC;
  - non-compliance with the HSBC Values and other mandatory requirements or policies.

#### 4.7 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 identified staff. RemNom will seek Risk and Compliance input if the performance assessment presents a concern specifically for senior executives.
- 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 Behaviour Gateway which directly influences their/ qualifies them for an overall performance rating for their variable pay determinations.
- For senior executives and certain Identified Staff, 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.
- For senior executives and certain Identified Staff, their variable pay is subject to the achievement of sustainability metrics (i.e. Chief Executive Officer, Chief Operational Officer, Heads of Business Lines). These include key performance indicators linked to Environmental, Social and Governance (ESG) imperatives.
- 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. In-

Scope employees must comply with anti-hedging requirements on remuneration in line with group policy.

- **Gender Pay** - Comparative analyses of the theoretical salary, variable remuneration and total remuneration by gender and by grade (GCB) across the Bank are conducted including a separate analysis for the Identified Staff population.
- **Salary Benchmarking exercise** – Comparative analysis of remuneration is conducted across the Bank on a yearly basis with the market in the industry as published on a national level.
- 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 Identified Staff, 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.

## 5. Remuneration Structure

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

- 5.1 **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.
- 5.2 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.
- 5.3 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.
- 5.4.1 **Variable Pay. Driving a 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. For those employees captured as Identified Staff (outlined in section 7) a substantial portion, and in any event at least 40% of the variable remuneration component is deferred over a period which is not less than four to five years and is correctly aligned with the nature of the business, its risks and the activities of the staff member concerned. For members of the management body and senior management of institutions that are significant in terms of their size, internal organisation and the nature, scope and complexity of their activities, the deferral period should not be less than five years.
- 5.4.2 **Retention:** Such payments may be considered to encourage the retention of employees key to the delivery of projects of strategic importance at any point in time, Such awards would be exceptional and will only be considered in the event of projects considered critical to the bank's continued operation. Proposals for the implementation of such awards would require the approval of Remnom on a case by case basis.

- 5.5 The bank has taken action regarding 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 both business performance and 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 performance and 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 Group Remuneration 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 need to pass the behaviour gateway to qualify for a performance rating. This ensures performance is assessed not only on what is achieved but also on how it is achieved.

- 5.6 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.
- 5.7 The annual variable pay award is discretionary and is determined and paid in line with internal Bank policies and procedures. The variable pay should not exceed 100% of fixed pay.
- 5.8 **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.

## 6. Reward Review Principles

- 6.1 Determination of any salary increase is dependent on union agreement and market data, in line with the employee's manager structure subject to overall affordability. RemNom is presented an overall view of fixed pay increases and adjustments which the committee endorses and presents for final approval to the Board. For senior management RemNom reviews the line-by-line of fixed pay and variable on an annual basis.



- 6.2 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 the focus on total compensation comparative to internal peers and the external market.

## **7. Performance Management**

- 7.1 Employee's individual performance results are assessed through the Performance Management process.
- 7.2 At the beginning of the performance year financial and/or non-financial goals are set for each employee and formalized through the performance scorecard framework.
- 7.3 The Performance Management process focuses on 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.
- 7.4 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.
- 7.5 As a result of this assessment the employee is assigned a performance rating based on a 3-rating scale: Outstanding, Performing, Offtrack
- 7.6 Employees need also pass the behaviour gateway. This takes into account behaviour aspects of how the performance goals were reached and uses the HSBC Behaviour Gateway guide as a reference.

## **8. Identified Staff**

- 8.1 Identified Staff 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 Commission Delegated Regulation (EU) 2021/923 and according to the Capital Requirement Directive (CRDV (2019/878/EU) amending CRDIV (2013/36/EU), and the European Banking Authority (EBA) Guidelines EBA/GL/2021/04 and the MFSA Banking Rule 21 on remuneration. The list of the Identified Staff is subject to bi-annual reviews.
- 8.2 The remuneration of the Identified Staff is subject to review / approval as set below.
- 8.3 Determination of fixed pay for employees in grade level 4 to 8 is at the full discretion of the Identified Staff member's manager based on the group and local compensation guidelines in line with union agreements where appropriate. Review of fixed and variable pay for senior executives is subject to the approval by RemNom and the Board with a focus on total compensation competitiveness within internal peer group and external market where appropriate.

8.4 Determination of the variable pay amount is at the full discretion of the Identified Staff member'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 Remuneration Committee.

8.5 The variable pay awards for Identified Staff members 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 not 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

(1) Unless approved otherwise by Remnom, 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 <ul style="list-style-type: none"> <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> </li> </ul>

50%	<ul style="list-style-type: none"> <li>• HSBC ordinary shares *</li> <li>• Immediately vested</li> <li>• Subject to a 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 a 1-year 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<sup>(2)</sup></li> </ul>
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(2) 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.

(3) 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 seven years from date of grant.

8.6 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.

8.7 In case the Identified Staff's 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.

8.8 The Identified Staff's remuneration is subject to disclosure on an annual basis as part of the Bank's Annual Report and Public disclosure of information is required in line with the Commission Implementing Regulation 2021/637. Disclosures are submitted to the MFSA in line with MFSA Supervisory Reporting Requirements.

8.9 In case of **Severance Payments** related to early termination of an employment contract, these are effected on a proportional basis according to the period of employment due as at date of termination in line with the Collective Agreement and/or contractual clauses if applicable and in agreement with the employee.

If applicable, and as per prevailing Collective Agreement with the recognised Union, the Bank shall pay the employee a payment which would normally be based on tenure and would not exceed the equivalent of three (3) years' remuneration. Employees with less than 3 years to statutory retirement will receive the pro-rata terminal salary due from termination date till statutory retirement date. This is in addition to any pension or other benefits an employee might be entitled to.

Severance payments shall not be awarded to employees in the event of voluntary resignation.