

## **The Directors' Remuneration Policy:**

### **Introduction**

Pursuant to Chapter 12 of Listing Rules issued by the Listing Authority as amended to transpose the provisions of the Shareholders' Rights Directive (EU 2017/828), frequently referred to as "SRDII", HSBC Bank Malta p.l.c. (the 'Company') is formally establishing a Directors' Remuneration Policy (the 'Policy').

The Bank's Remuneration and Nomination Committee ('RemNom') has drawn up this Policy. The Policy formalises the practice that has been adopted by the Company over the years. The scope of this Policy is to contribute to the business strategy, long-term interests and sustainability of the Company and hence it is linked to long-term objectives.

The Policy was then considered and approved by the Company's Board of Directors and is being submitted to the Company's Shareholders for their consideration, and if deemed appropriate, approved at the forthcoming Annual General Meeting ('AGM'). Upon approval, the Policy, together with the date of approval and the results of the vote, will be published on the Company's website on [www.hsbc.com.mt](http://www.hsbc.com.mt). The Policy shall remain available on the Company's website as long as it is applicable.

The Policy and its implementation shall be reviewed regularly by RemNom. Any material amendments to the Policy shall be submitted to a vote by the General Meeting of the Company before their adoption, and in any case at least every four years.

The Company's Board is of the opinion that there is no risk of a conflict of interest in RemNom drawing up this Policy, as it is being submitted to the Company's General Meeting for their consideration and approval. Moreover, Shareholders shall approve the maximum annual aggregate emoluments of the Directors, as well as any increase of such emoluments, at the General Meeting.

It has always been the practice to appoint the Company's Chief Executive Officer ('CEO') as an Executive Director on the Company's Board. Hence, the CEO falls under Section One of the Policy.

The Policy is divided into three separate Sections covering provisions relating to:

- Executive Directors, that is those Directors who are involved in the daily running of the Company;
- Non-Executive Directors; and
- provisions common to all Directors.

### **Section One – Provisions Applicable to Executive Directors**

#### **1. Distinction between a Director's Salary and Board Fees**

This Policy distinguishes between what Executive Directors earn by way of their salaried job in the Company and what they earn by virtue of holding a directorship on the Company's Board. This reflects what is stated in Article 69 of the Company's Articles of Association, that any remuneration paid to any Director by virtue of his holding a salaried office with the Company shall not be deemed to form part of a Director's emoluments that require the AGM's approval.

#### **2. Non-Entitlement to Any Board Fees**

Notwithstanding anything contained in this Policy, Executive Directors shall not be entitled to any Board fees, either for sitting on the Company's main Board or any of its Committees, or for sitting on any other board of an HSBC Group entity.

#### **3. Executive Directors' Reward Package as Salaried Employees**

Executive Directors shall not be entitled to any increased pay and enhanced employment conditions by virtue of their appointment as Directors of the Company.

Executive Directors' reward package as salaried employees shall be regulated in terms of the Company's Remuneration Policy applicable to all other employees. This in itself shows the large extent to which the pay and employment conditions of the employees of the Company were taken into account when establishing this Policy.

The reward package comprises three key elements:

- Fixed Pay;
- Variable Pay; and
- Other Benefits.

Fixed Pay reflects the individual's role, experience and responsibility. It comprises the base salary and in some cases a fixed pay allowance and/or a contribution to the Employees' Pension Scheme.

Variable Pay awards are made to drive and reward performance against annual financial and non-financial measures and adherence to HSBC values that are consistent with the medium-to-long term strategy and aligned to stakeholder interests. Variable Pay may not exceed 100% of the Fixed Pay. Variable Pay is delivered in the form of cash and shares in HSBC Holdings plc. The award of Variable Pay is discretionary, and is determined and paid in line with Company policies and procedures. The Company assesses its employees' performance through the Performance Management Process, including that of the Executive Directors.

Performance targets are set annually for each individual Executive Director, which take into account the economic environment and the Company's strategic priorities and risk appetite. Performance is assessed on a regular basis throughout the year. Employees are assigned an annual performance rating based on a four-point scale. Employees also have a separate HSBC values four-point scale rating that influences their overall performance rating. Thus, individual performance is based on what is achieved as well as how it is achieved, as the Company believes that including both of these perspectives contributes to the long-term sustainability of the business.

Executive Directors' performance targets are set by their Line Managers. In the case of the CEO's objectives, these are set by his Line Manager in accordance with the guidance provided by HSBC Group. Their annual performance outcome together with their Variable and Fixed Pay recommendation will be subject to RemNom's favourable recommendation and Board's approval.

In addition, Executive Directors are deemed to be Material Risk Takers ("MRTs") in terms of Regulatory Technical Standard EU 604/2014. MRTs' Variable Pay may be subject to deferral, where appropriate, vesting over a period of 5 years. Variable Pay will be subject to clawback. It may also be subject to malus which allows unvested/unpaid deferred awards to be reduced or cancelled if warranted. Where Variable Pay for MRTs is more than EUR100,000 (or as per the applicable regulation) or for lower values where Variable Pay is greater than 33% of Total Compensation, a minimum of 50% of the awards are made in HSBC Holdings plc shares.

Benefits take account of local market practices. They may include the provision of long-service bonus, retirement bonus, medical insurance, health assessment, life and personal accident assurance, and the payment of fees for tax computation assistance, where appropriate.

With effect from Financial Year 2020, the Remuneration Report published by the Company in its Annual Report shall be drawn up in line with the requirements of Appendix 12.1 of the Listing Rules and other applicable regulations.

#### **4. External Directorships**

Executive Directors may accept appointments as non-executive directors of companies that are not part of HSBC Group if so authorised by either the Board or RemNom.

Any remuneration receivable in respect of an external appointment of an Executive Director, where such an appointment has been made on behalf of the Company or HSBC Group, is normally paid to the Company, unless otherwise approved by the Board or RemNom.

### **Section Two – Provisions Applicable to Non-Executive Directors**

#### **5. Board and/or Committee Fees**

Non-Executive Directors shall only be entitled to Board and/or Committee fees and shall not be entitled to any additional allowances.

On an annual basis RemNom reviews management's proposal in respect of Board and/or Committee fees. The objective of this review is to ensure that individuals of the appropriate calibre are able to be appointed or retained. Said fixed fees are recommended by RemNom for Board's approval, after taking into account inter alia:

- fees paid by other HSBC Group sites similar to the Company, as recommended by an HSBC Group Remuneration Committee;
- fees paid to Directors in the local financial market;
- the continued increase in the level of Directors' responsibilities in the context of a Listed and Regulated Entity;
- the fact that the Company is deemed to be a systemically important bank within Malta;
- the need to enable the Company to continue to attract and retain the highest quality of Directors, while avoiding paying more than is necessary to secure the individuals with the appropriate skills and qualities;
- the effect of implementation of the multiple directorships rule under the Banking Act;
- the increase in the amount of time commitment required of Directors, including time dedicated for training; and
- the role held in the respective Committees by the Member.

In their recommendation to the Board, RemNom shall be guided exclusively by the best interests of the Company.

Moreover, in line with best practice Non-Executive Directors' individual performance is reviewed on an annual basis by the Chairman of the Company.

#### **6. Shareholders' Approval of Aggregate Emoluments**

In terms of Article 69 of the Company's Articles of Association, a resolution passed at the General Meeting shall establish the maximum annual aggregate emoluments, as well as any increase of such emoluments, excluding any remuneration paid to a Director by virtue of holding a salaried office with the Company. This addresses any perceived conflict of interest issues in relation to the said remuneration.

## **7. HSBC Group Non-Executive Directors**

Non-Executive Directors who are not Company employees but are otherwise HSBC Group employees shall not be entitled to any Board's and/or Committees' fees.

### **Section Three - Provisions Common to All Directors**

#### **8. Duration of Arrangement**

A Director is appointed from the end of one AGM until the end of the next. No sign-on payment is made upon appointment to either Executive or Non-Executive Directors. In terms of the Company's Articles of Association Directors shall not be required to have a shareholding qualification.

The appointment of Non-Executive Directors is governed by a letter of appointment that sets out the terms of the appointment. This appointment is not a contract of employment and is subject to all the terms and conditions of the Company's Memorandum and Articles of Association.

Non-Executive Directors do not receive any retirement benefits, supplementary pension or termination payments for termination or loss of office, whether in terms of the letter of appointment or otherwise. The appointment may be terminated before expiry of the term, by either party giving to the other party one month's prior written notice or in any manner allowed by law.

On termination of the appointment of an executive directorship, Executive Directors are also not entitled to any retirement benefits, supplementary pensions or termination benefits related to the said termination. Upon retirement from their employment, Executive Directors shall be subject to the same conditions of any Early/Voluntary Retirement Schemes. No notice period regarding the termination of an executive directorship applies to either party.

#### **9. Reimbursement of Expenses**

In performing the duties of their office, all Directors shall be reimbursed for all reasonable and properly documented expenses incurred. In terms of Article 69 of the Company's Articles of Association such expenses shall not be deemed to form part of a Director's emoluments.

#### **10. Compliance with The Remuneration Policy**

The Board of Directors shall ensure that any remuneration paid to Directors is only made in accordance with the Policy as approved by the General Meeting.