



# Remuneration Policy

**HSBC Investment Funds (Luxembourg) S.A.**

**Date:** 12 November 2024

**Due for next review:** 2Q25

**Owner:** Luxembourg Human Resources (HR)



**REVISION HISTORY**

| Date / version         | Drafted by | Reviewed by                            | Comments  |
|------------------------|------------|--|---|
| APR19/ v 0.1           | HIFL RC    | LMC and HIFL's Board of Directors      |   |
| APR20-<br>MAY20/ v 0.2 | HIFL RC    | LMC and HIFL's Board of Directors      | Approved by BoD on 1 <sup>st</sup> of April 2020  |
| FEB21-<br>MAY20/ v 0.3 | HIFL RC    | LMC and HIFL's Board of Directors      | Approved by BoD on 10 <sup>th</sup> of March 2021   |
| MAY23/ v 0.4           | HIFL RC    | HR, LMC and HIFL's Board of Directors. | Approved by the HIFL LMC on 28 February 2023. Approved by BoD on 3 May 2023.<br>At the request of the HIFL Board on 7 March 2023, HIFL has reviewed the gross variable pay limit for HIFL staff, including Identified Staff, to ensure it is consistent with the business requirements and compliant with the relevant regulations. |



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| <p>NOVEMBER<br/>24/ v 0. 5</p> | <p>Human Resources<br/>HIFL RC</p> | <p>HIFL's Board of<br/>Directors</p> | <p>Approved by the HIFL Board of Directors on 28/11/2024.<br/>Updates in relation to:<br/>i) Application of the proportionality principle to be evaluated on annual basis to guarantee that any modifications to the HIFL business model do not affect the principle's application and any necessary revision will be incorporated into the policy;<br/><br/>ii) ESMA Common Supervisory Action (CSA) On Valuation CSSF Feedback Report to clarify that the variable remuneration of staff involved in the valuation function is not determined directly by the performances of the funds managed by HIFL.<br/><br/>iii) HIFL Branches.</p> |
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## 1. PREFACE

HSBC Investment Funds (Luxembourg) S.A. ("HIFL", or the "**Management Company**") is a management company authorised under Chapter 15 of the amended Law of 17 December 2010 on undertakings for collective investment (the "**2010 Law**") and Chapter 2 of the amended Law of 12 July 2013 on alternative investment fund managers (the "**2013 Law**"). It acts as the appointed management company of several undertakings for collective investment in transferable securities ("**UCITS**") within the meaning of Directive 2009/65/EC of the European Parliament and of the Council on the coordination of laws, regulations and administrative provisions relating to UCITS (the "**UCITS Directive**") and as an alternative investment fund manager of alternative investment funds ("**AIFs**") within the meaning of Directive 2011/61/EU of the European Parliament and of the Council on alternative investment fund managers (the "**AIFM Directive**"). The policy applies to HIFL and all the managed UCITS and AIFs.

The Management Company forms part of the HSBC group (the "**HSBC Group**"), which applies an enterprise-wide approach to remuneration policies and practice for all Luxembourg entities.

## 2. REMUNERATION POLICY AND GROUP PRINCIPLES

In this context, the Management Company has put in place this remuneration policy (the "**Policy**") to fulfil the requirements of (i) Articles 111bis and 111ter of the 2010 Law, (ii) Article 12 and Appendix II of the 2013 Law (iii) Commission Delegated Regulation 231/2013 of 19 December 2012 and (iv) the ESMA guidelines on sound remuneration policies under the UCITS Directive (ESMA 2016/575) as well as the ESMA guidelines on sound remuneration policies under the AIFMD (ESMA 2013/232) as amended by ESMA/2016/579 Guidelines on sound remuneration policies under the AIFMD (together the "**ESMA Guidelines**"), (v) Regulation 2019/2088 of the European Parliament and of the Council of 27 November 2019, and vi) CSSF Circular 10/437 further guidance and implementation of the EU recommendation 2009/384/EC and CSSF Circular 14/585 (transposition of ESMA guidelines on remuneration policies and practices (MiFID) – Addition of Annex V to CSSF 07/307), vii) ESMA Common Supervisory Action On Valuation CSSF Feedback Report.

Furthermore, the following documents should be considered as part of the Policy:

- "*HSBC Remuneration Practices and Governance*" in Appendix I
- HR FIM "[Managing Performance](http://fim.ghq.hsbc/FIM/home.nsf/ByRef/EMEA75TJFU15010906082007?Open&language=EN)":  
<http://fim.ghq.hsbc/FIM/home.nsf/ByRef/EMEA75TJFU15010906082007?Open&language=EN>
- HR FIM "[Managing Pay](http://fim.ghq.hsbc/FIM/home.nsf/ByRef/UKWE9L6DH210470517062014?Open&language=EN)":  
<http://fim.ghq.hsbc/FIM/home.nsf/ByRef/UKWE9L6DH210470517062014?Open&language=EN>

## 3. SCOPE OF THE POLICY

For the purposes of this Policy, "remuneration" consists of all forms of payments or benefits made by the Management Company, in exchange for professional services rendered by its employees, including Identified Staff.

Remuneration can be divided into:

- i. fixed pay / remuneration (payments, allowances or benefits without consideration of any performance criteria); and
- ii. variable pay / remuneration (additional payments or benefits depending on business and individual performance).

Both components of remuneration (fixed and variable) may include:

- i. monetary payments or benefits (such as cash, shares, pension contributions);
- ii. non (directly) monetary (such as special allowance for car, mobile phone, etc.).

This Policy applies to the staff in the Management Company and Management Company's branches who qualify as "**Identified Staff**" / "**Material Risk Takers**" ("**MRTs**"), within the



meaning of the ESMA Guidelines, which is any individual whose professional activities have a material impact on the risk profile of the Management Company or of the AIFs/UCITS which they manage (or both).

#### **4. IDENTIFICATION OF THE “IDENTIFIED STAFF”**

On an annual basis, a remuneration review is undertaken / co-ordinated by the Asset Management (hereafter “AM”) Regulatory Compliance (RC) team and ‘Reward’ team in the UK to have the “MRTs staff tracker” document reviewed / updated as appropriate by the respective RC team of each AM office.

This is done in line with the guidance/rules set down in the AM’s staff identification guide (i.e. “UCITS and AIFMD Identified Staff Guidelines for HSBC Global Asset Management”).

Furthermore, a review of the MRTs is also undertaken locally by the HR team for all HSBC Luxembourg-based entities, including the Management Company.

- ◆ The identification process (maintenance of a list of Identified Staff separately from this Policy) is conducted on an on-going basis by the HR department, with the support of Control Functions and Conducting Officers. The resulting list of Identified Staff is properly documented (including information on the rationale behind the assessment, how the assessment is carried out, the number of staff identified, their role and responsibilities, allocation by business areas, the results compared to previous years, any potential proposals for exclusion etc.) and updated during the year on an on-going basis.
- ◆ The list of Identified Staff (including information on the rationale behind the assessment, how the assessment is carried out, new Identified Staff and those removed from the list compared to previous year) is subject to the approval of the Board of Directors once per year.

#### **5. PROPORTIONALITY PRINCIPLE**

The criteria set down in the ESMA Guidelines have been factored-in to determine whether the proportionality principle may be applied for the categories of staff covered by the Guidelines (i.e. the “*Identified Staff*” mentioned in section 4 above).

The assessment has been based on the following factors:

##### Criteria in terms of size, internal organisation and nature, scope and complexity of the activities

- the Management Company has no subsidiaries and is in the process of establishing Branches;
- its internal organisation is not complex;
- it has only 19 employees;
- the nature, scope and complexity of the business activities of the Management Company are limited; and
- the Management Company delegates the portfolio management, central administration functions and marketing activities and therefore there are limited risks associated with the Management Company’s activities;

##### Group of persons, who have only collectively a material impact on the risk profile of the management company

Some individuals at the level of the Management Company are, in principle, capable of entering into contracts, and taking decisions, that may materially affect the risk positions of the Management Company and/or of the UCITS / AIFs under management.

However, the risks are limited considering the fact that decisions are taken collectively (no individual decisions are taken), and the internal governance arrangements established by the Management Company including but not limited to the set-up of an approval committee and adequate internal control mechanisms.



## Branches

The primary function of the Branch involves the supervision of third-party service providers associated with the funds managed by HIFL. This function is executed within the operational oversight and internal control framework currently employed by HIFL, resulting in no significant alterations to the internal organisation, nature, scope or complexity of HIFL's existing activities.

## Structure of the remuneration of identified staff

The structure of the remuneration of the staff members, including "Identified Staff", consists of fixed and variable pay<sup>1</sup>. The amount of variable remuneration and the percentage of variable remuneration / fixed remuneration have been considered as well for the purpose of this assessment. The percentage of the gross variable pay for Identified Staff does not exceed 50% of the total gross annual pay<sup>2</sup> for the same year.

Considering the above, it has been decided to apply the proportionality principle at the level of Identified Staff.

The application of the proportionality principle will be evaluated on annual basis by Human Resources with the support of Compliance to guarantee that any modifications to the HIFL business model do not affect the principle's application and any necessary revision will be incorporated into the policy.

In this context, the Management Company will not apply the following:

- i. requirement to pay out a part of the variable remuneration in instruments and, de facto, the related instrument retention obligations;
- ii. requirement to pay out a part of the variable remuneration through a deferral scheme and, de facto, the related ex-post risk adjustment obligations (*malus*); and
- iii. requirement to set up a remuneration committee at Luxembourg entity level.

Any gross variable pay that exceeds 50% of the total gross annual pay for the same year, will be treated as an exception and managed according to the HSBC *Remuneration Practices and Governance* (see Appendix I).

The variable remuneration of staff involved in the Valuation function (valuation of assets of Undertakings of Collective Investment in Transferable Securities "UCITS" and Alternative Investment Funds "AIFs") is not determined directly by the performance of the funds managed by HIFL.

## **6. DELEGATION OF INVESTMENT MANAGEMENT ACTIVITIES**

When delegating investment management functions (including risk management), the Management Company will ensure that:

- the entities to which investment management (or, in case of AIFs, portfolio management or risk management) activities have been delegated are subject to regulatory requirements on remuneration that are equally as effective as those applicable under the ESMA Guidelines; or

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<sup>1</sup> ESMA/2013/ 232 Guidelines on sound remuneration policies under the AIFMD: All remuneration can be divided into either fixed remuneration (payments or benefits without consideration of any performance criteria) or variable remuneration (additional payments or benefits depending on business and individual performance). Both components of remuneration (fixed and variable) may include monetary payments or benefits (such as cash, shares, options, cancellation of loans to staff members at dismissal, pension contributions, remuneration by AIFs e.g. through carried interest models) or non (directly) monetary benefits (such as, discounts, fringe benefits or special allowances for car, mobile phone, etc.). Ancillary payments or benefits that are part of a general, non-discretionary, AIFM-wide policy and pose no incentive effects in terms of risk assumption can be excluded from this definition of remuneration for the purposes of the AIFMD specific risk alignment remuneration requirements

<sup>2</sup> The gross total annual pay is the gross fixed monthly pay of December of the reference year multiplied by twelve and added to the gross variable pay for the same reference year.



- appropriate contractual arrangements are put in place with entities to which investment management (or, in case of AIFs, portfolio management or risk management) activities have been delegated in order to ensure that these delegation does not result in a circumvention of the remuneration rules set out in the ESMA Guidelines.

At the date of this Policy, the investment management function is delegated only to AM offices.

The EU based entities with whom the delegation arrangements are concluded are UCITS management companies / AIFM or MiFID firms. The ESMA Guidelines provide that regulatory requirements on remuneration under either the Directive 2013/36/EU (CRD IV) or the AIFM Directive are equally as effective for these purposes. This will be the category into which the MiFID firm or EU Investment Managers will fall in.

In cases where the Investment Managers are non EU Investment Managers, the Investment Managers appointed by the Management Company are subject to regulatory or internal requirements on remuneration that are equally as effective as those applicable under the ESMA Guidelines since these are subject to the HSBC's Group remuneration policies which are CRD V<sup>3</sup> compliant.

The Management Company will rely on the remuneration policy and procedure arrangements in place for each delegate to ensure that their remuneration structures promote a culture of investor protection and mitigate conflicts of interest.

### **7. GOVERNANCE AT MANAGEMENT COMPANY LEVEL**

The Board of Directors of the Management Company (the “**Management Company Board**”) is responsible for adopting and providing oversight of the implementation of the Policy and processes, which includes reviewing the Policy at least annually<sup>4</sup>.

The management committee of the Management Company (the “**Management Committee**”) also reviews and approves the Policy.

The Management Company Board and the Control Functions (i.e. risk management, internal audit or compliance functions) also provide information on local regulatory requirements to the Human Resources for consideration in remuneration decisions to ensure that decisions comply with all mandatory Luxembourg legal and regulatory requirements.

The Risk Management function should assess how the variable remuneration structure affects the risk profile of the Management Company.

The Compliance function of the Management Company should analyse how the remuneration structure affects the Management Company's compliance with legislation, regulations and internal policies.

From time to time, the Internal Audit function will review the implementation of the Policy in the Management Company and report to the Management Company Board on its findings. It should also periodically carry out an independent audit of the design, implementation and effects of the Management Company's remuneration policies.

The implementation of the remuneration policy will be subject to an independent internal review at least annually.

### **8. SHAREHOLDERS' INVOLVEMENT**

HSBC employees acting as Board members do not receive any remuneration for this function while the Independent Directors do not receive any variable remuneration for this function.

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<sup>3</sup> Directive 2013/36/EU as amended by Directive 2019/878 is known as CRD V.

<sup>4</sup> The Management Company Board has delegated the authority to the management committee of the Management Company for the approval of any updates to the Policy as long as none of the changes made to the Policy will have a material impact on the process described therein, and subject to submission of the updated Policy at the next meeting of the Board.



The approval of the payment of the fixed remuneration of the Independent Directors (“Directors fees”) within the Management Company Board are assigned to the meeting of the shareholders of the Management Company. At each Annual General Meeting (“AGM”), shareholders are asked to approve the level of Directors’ fees paid to the Independent Directors for the year.

### **9. DISCLOSURE**

#### **9.1 Internal disclosure**

This Policy will be accessible to all staff members, who will know in advance the criteria that will be used to determine their remuneration. Confidential quantitative aspects of the remuneration of staff members will remain confidential and will thus not be internally disclosed. The information provided to staff members will contain at least the following elements:

- information on the decision-making process;
- information on linkage between pay and performance;
- information on the total amount of remuneration paid to Identified Staff for the financial year, split into fixed and variable remuneration, the number of Identified Staff, and where relevant, any amount paid directly by the UCITS/AIFs itself, including any performance fee/carried interest;
- information on the different forms of non-contractual variable remuneration (i.e. Standard Variable Pay, Guided Variable Pay and Discretionary Variable pay) and the rationale for using them and for allocating them to different categories of staff;
- information on the criteria used for performance measurement and the risk adjustment;
- information on the performance criteria on which the entitlement to variable components of remuneration is based; and
- the main parameters and rationale for any annual bonus scheme and any other non-cash benefits.

#### **9.2. External disclosure**

A summary of the Policy will be available on AM website, and contain, inter alia, the following elements:

- information on the decision-making process;
- information on linkage between pay and performance;
- information on the performance criteria (including sustainability risks) on which the entitlement to variable components of remuneration is based;
- information on the different forms of variable remuneration and the rationale for using them / allocating them to different categories of staff; determination of Identified Staff;
- delegation of investment management activities; and
- governance matters at the level of the Company.

Furthermore, the total amount of remuneration for the financial year paid by the Management Company to its staff, the aggregate amount of remuneration broken down by the relevant categories of employees, a description of how the remuneration has been calculated and any material changes to the Remuneration Policy will be disclosed in the annual audited financial statements of the UCITS and AIFs under management.

### **10. APPENDIX I: HSBC Remuneration practices and governance**

#### **Summary**

HSBC’s remuneration practices and governance is underpinned by compliance with our regulatory frameworks, comprehensive internal and external research, feedback and data from



our snapshot and pay review surveys, as well as exit interviews about what makes colleagues join, leave and feel engaged at HSBC.

## Audience

All employees

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  - [Remuneration structure for employees](#)
  - [Link between risk, performance and reward](#)

## Guidance

### Our approach to workforce reward

Our goal is to deliver a unique and exceptional experience to energise colleagues to perform at their best. This is critical to strengthening our ability to attract, retain and motivate the people we need, in competitive markets where employee expectations continue to evolve. Our approach is centred on our purpose and values, and our reward principles and commitments are:

- We will reward our colleagues responsibly through fixed pay security and protection through core benefits, a competitive total compensation opportunity, pay equity, and a more inclusive and sustainable benefits proposition over time.
- We will recognise colleagues' success through our performance culture and routines, including feedback and recognition, pay for performance, and all employee share ownership opportunities.
- We will support our colleagues to grow through our proposition beyond pay, with a focus on future skills and development, support for well-being, and flexibility.

Pay is an important part of our overall proposition. Our focus is improving transparency and clarity for colleagues so they understand better how we make pay decisions.

For 2024, we will introduce a new variable pay structure for over 150,000 junior and middle management colleagues, providing more clarity around the variable pay levels for on-target performance, while retaining flexibility to differentiate outcomes for performance.

We have been certified by the Fair Wage Network as a global Living Wage employer for 2024. This is an important commitment to give colleagues confidence that our fixed pay levels are sufficient to provide financial security.

### Remuneration structure for employees

Below are the key features of our remuneration framework, which applies on a Group-wide basis, subject to compliance with local laws:

[Overview of remuneration structure for employees](#)

| Remuneration components and objectives | Application for Group employees | Approach for executive Directors |
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| <p><b>Fixed pay</b></p> <p>Attract and retain employees with market competitive pay for the role, skills and experience required.</p>   | <ul style="list-style-type: none"> <li>• Fixed pay may include salary, fixed pay allowance, cash in lieu of pension and other cash allowances in accordance with local market practice.</li> <li>• It is based on predetermined criteria, non-discretionary, transparent and not reduced based on performance.</li> <li>• It represents a higher proportion of total compensation for more junior colleagues.</li> <li>• Fixed pay may change to reflect an individual's position, role or grade, cost of living in the country, individual skills, capabilities and experience.</li> <li>• Fixed pay is generally delivered in cash on a monthly basis.</li> </ul>   | <ul style="list-style-type: none"> <li>• Consistent with approach for Group colleagues except fixed pay allowance paid in shares.</li> </ul>   |
| <p><b>Benefits</b></p> <p>Support the physical, mental and financial health of a diverse workforce in accordance with local market practice.</p>  | <ul style="list-style-type: none"> <li>• Benefits may include, but are not limited to, the provision of a pension, medical insurance, life insurance, health assessment and relocation support.</li> </ul>  | <ul style="list-style-type: none"> <li>• Provision of medical insurance, life insurance, car and tax return assistance. Group Chief Executive is eligible to receive accommodation and a car benefit in Hong Kong.</li> </ul>  |
| <p><b>Annual incentive</b></p> <p>Incentivise and reward performance based on annual financial and non-financial measures consistent with the medium- to long-term strategy, stakeholder interests and values-aligned behaviours.</p> | <ul style="list-style-type: none"> <li>• All employees are eligible to be considered for a discretionary variable pay award. Individual awards are determined against objectives for performance set at the start of the year.</li> <li>• Variable pay represent a higher proportion of total compensation for more senior colleagues and will be more closely aligned to Group and business performance as seniority increases.</li> <li>• Variable pay for Group employees identified as Material Risk Takers ('MRTs') is limited to 200% of fixed pay.</li> <li>• Awards are generally paid in cash and shares. For MRTs, at least 50% of the awards are in shares and/or where required by regulations, in units linked to asset management funds.</li> </ul> | <ul style="list-style-type: none"> <li>• Annual incentive is determined based on the outcomes of annual scorecard of financial and non-financial measures.</li> <li>• Executive Directors and Group Executives are also eligible to be considered for a long-term incentive ('LTI') award, which is subject to three-year forward-looking</li> </ul> |



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|  |   | performance measures.   |
| <p><b>Buy-out awards</b><br/>Support recruitment of key individuals.</p>   | <ul style="list-style-type: none"> <li>Buy-out awards may be offered if an individual holds any outstanding unvested awards that are forfeited on resignation from the previous employer.</li> <li>The terms of the buy-out awards will not be more generous than the terms attached to the awards forfeited on cessation of employment with the previous employer.</li> </ul>  | <ul style="list-style-type: none"> <li>For new hires, the approach is consistent with the approach taken for employees and policy approved by shareholders.</li> </ul>  |
| <p><b>New hire indicative variable pay</b><br/>Support recruitment of key individuals.</p>   | <ul style="list-style-type: none"> <li>New hire indicative variable pay is awarded in exceptional circumstances, and is limited to the individual's first year of employment only, and is subject to a number of factors (such as the respective performance of the Group, business unit and individual), and the final value paid remains at the full discretion of HSBC.</li> <li>The exceptional circumstances would typically involve a critical new hire and would also depend on the factors such as the seniority of the individual, whether the new hire candidate is forfeiting any awards and the timing of the hire during the performance year.</li> </ul>  | <ul style="list-style-type: none"> <li>For new hires, the approach is consistent with the approach taken for employees and policy approved by shareholders.</li> </ul>  |
| <p><b>Deferral</b><br/>Align employee interests with the medium- to long-term strategy, stakeholder interests and values-aligned behaviours.</p> | <ul style="list-style-type: none"> <li>A Group-wide deferral approach is applicable to all employees. A portion of annual incentive awards above a specified threshold is deferred in shares vesting annually over a three-year period (33% vesting on the first and second anniversaries of grant and 34% on the third).</li> <li>For MRTs, awards are generally subject to a minimum 40% deferral (60% for awards of £500,000 or more) over a minimum period of four years.</li> <li>A deferral period of five years is applied for senior management and individuals in specified roles with managerial responsibilities as prescribed under the PRA and FCA remuneration rules and seven years for individuals in PRA-designated senior management functions.</li> <li>In line with the PRA and FCA remuneration rules, and in compliance with local regulations, the deferral requirement for MRTs is not applied to individuals where their total variable pay</li> </ul> | <ul style="list-style-type: none"> <li>All of the LTI award, or at least 60% of the total variable award (including LTI), is deferred. The deferred awards will vest in five equal annual instalments, with the first vesting on or around the third anniversary of the grant date and the last instalment vesting on or around the seventh anniversary of the grant date.</li> <li>All deferred awards are in HSBC shares</li> </ul> |



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|                                  | <p>is £44,000 or less and variable pay is not more than one-third of total compensation. For these individuals, the Group standard deferral applies.</p> <ul style="list-style-type: none"> <li>• Individuals based outside the UK and identified as MRTs under local regulations, would be subject to local requirements where necessary.</li> <li>• All deferred awards are subject to malus provisions, subject to compliance with local laws. Awards granted to MRTs on or after 1 January 2015 and awards granted to non-MRTs on or after 1 January 2022 are subject to clawback.</li> <li>• HSBC operates an anti-hedging policy for all employees, which prohibits employees from entering into any personal hedging strategies in respect of HSBC securities.</li> <li>• For all Group MRTs and the majority of local MRTs, excluding executive Directors, a minimum 50% of the deferred awards is in HSBC shares and the rest into deferred cash. Local regulatory requirements would also apply where necessary.</li> <li>• For some employees in our asset management business, where required by the relevant regulations, at least 50% of the deferred award is linked to fund units reflective of funds managed by those entities, with the remaining portion in deferred cash awards.</li> <li>• Variable pay awards made in HSBC shares or linked to relevant fund units granted to MRTs are generally subject to a one-year retention period post-vesting.</li> <li>• MRTs who are subject to a five-year deferral period, except senior management or individuals in PRA- and FCA-designated senior management functions, have a six-month retention period applied to their awards.</li> <li>• Where an employee is subject to more than one regulation, the requirement specific to the sector and/or country in which the individual is working is applied.</li> </ul> | <p>and subject to a post-vesting retention period of one year.</p>                               |
| <p><b>Severance payments</b></p> | <ul style="list-style-type: none"> <li>• Where an individual's employment is terminated involuntarily for gross misconduct then, subject to compliance with local laws, the Group's policy is not to make any severance payment in such</li> </ul>  | <ul style="list-style-type: none"> <li>• Any payments will be in line with the policy</li> </ul> |



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| <p>Adhere to contractual agreements with involuntary leavers.</p> | <p>cases and all outstanding unvested awards are forfeited.</p> <ul style="list-style-type: none"><li>• For other cases of involuntary termination of employment, the determination of any severance will take into consideration the performance of the individual, contractual notice period, applicable local laws and circumstances of the case.</li><li>• Generally, for good leavers all outstanding unvested awards will normally continue to vest in line with the applicable vesting dates. Where relevant, any performance conditions attached to the awards, and malus and clawback provisions, will remain applicable to those awards.</li><li>• Severance amounts awarded to MRTs are not considered as variable pay for the purpose of application of the deferral and variable pay cap rules under the PRA and FCA remuneration rules where such amounts include: (i) payments of fixed remuneration that would have been payable during the notice and/or consultation period; (ii) statutory severance payments; (iii) payments determined in accordance with any approach applicable in the relevant jurisdictions; and (iv) payments made to settle a potential or actual dispute.</li></ul> | <p>on loss of office.</p> |
|---|---|---------------------------|

**Link between risk, performance and reward**

The Group Remuneration Committee is responsible for setting the overarching principles, parameters and governance of the Group’s remuneration framework for our colleagues, and the remuneration of executive Directors, the Group Chairman and other senior Group colleagues. The Committee regularly reviews the framework to ensure it supports the Group’s purpose, values, culture and strategy, as well as promoting sound risk management. The Committee also reviews the framework to satisfy itself that it complies with the regulatory requirements of multiple jurisdictions.

All members of the Committee are independent non-executive Directors of HSBC Holdings plc. No Directors are involved in deciding their own remuneration. A copy of the Committee’s terms of reference can be found on our website at [www.hsbc.com/who-we-are/leadership-and-governance/board-committeeriss](http://www.hsbc.com/who-we-are/leadership-and-governance/board-committeeriss).

Our remuneration practices promote sound and effective risk management to support our business objectives and the delivery of our strategy. We set out below the key features of our framework, which help enable us to achieve alignment between risk, performance and reward, subject to compliance with local laws and regulations:



Key features of our framework

| Framework elements       | Application  |
|--------------------------|--|
| <b>Variable pay pool</b> | <p>The Group variable pay pool is expected to reflect Group performance, based on a range of financial and non-financial factors. We use a countercyclical funding methodology, with both a floor and a ceiling, with the payout ratio generally reducing as performance increases to avoid pro-cyclicality. The floor recognises that even in challenging times, remaining competitive is important. The ceiling recognises that at higher levels of performance it is not always necessary to continue to increase the variable pay pool, thereby limiting the risk of inappropriate behaviour to drive financial performance.</p> <p>The main quantitative and qualitative performance and risk metrics used for assessment of performance include:</p> <ul style="list-style-type: none"><li>• Group and business unit financial performance, considering contextual factors driving performance, and capital requirements;</li><li>• current and future risks, taking into consideration performance against the risk appetite, financial and resourcing plan and global conduct outcomes; and</li><li>• fines, penalties and provisions for customer redress, which are automatically included in the Committee's definition of profit for determining the pool.</li></ul> <p>In the event that the Group was unable to distribute dividends to shareholders for reasons such as capital adequacy, then the Group may determine that as a year of weak performance. In such a year, the Group may withhold some, or all, variable pay for employees including unvested share awards, using the metrics outlined above as a basis for that determination.</p> |



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| <b>Individual performance</b>                           | <ul style="list-style-type: none"><li>• Assessment of individual performance is made with reference to clear and relevant financial and non-financial objectives. Objectives for 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; and risk and compliance measures.</li><li>• 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.</li></ul>   |
| <b>Control function staff</b>                           | <ul style="list-style-type: none"><li>• Group policy is for control functions staff to report into their respective function. Remuneration decisions for senior functional roles are made by the global function head.</li><li>• The performance and reward of individuals in control functions, including risk and compliance colleagues, are assessed according to a balanced scorecard of objectives specific to the functional role they undertake.</li><li>• Their remuneration is determined independent of the performance of the business areas they oversee.</li><li>• Remuneration is carefully benchmarked with the market and internally to ensure it is set at an appropriate level.</li><li>• The Committee is responsible for approving the remuneration for the Group Chief Risk and Compliance Officer and Group Head of Internal Audit.</li></ul> |
| <b>Variable pay adjustments and conduct recognition</b> | <ul style="list-style-type: none"><li>• Variable pay awards may be adjusted downwards in circumstances including:<ul style="list-style-type: none"><li>– detrimental conduct, including conduct that brings HSBC into disrepute;</li><li>– involvement in events resulting in significant operational losses, or events that have caused or have the potential to cause significant harm to HSBC; and</li><li>– non-compliance with the values-aligned behaviours and other mandatory requirements or policies.</li></ul></li><li>• Rewarding positive conduct may take the form of use of our global recognition programme, At Our Best, or positive adjustments to variable pay awards.</li></ul>   |



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| <b>Malus</b>            | <p>Malus can be applied to invested deferred awards (up to 100% of awards) granted in prior years in circumstances including:</p> <ul style="list-style-type: none"><li>• detrimental conduct, including conduct that brings the business into disrepute;</li><li>• past performance being materially worse than originally reported;</li><li>• restatement, correction or amendment of any financial statements; and</li><li>• improper or inadequate risk management.</li></ul>   |
| <b>Clawback</b>         | <p>Clawback can be applied to vested or paid awards granted to MRTs on or after 1 January 2015 (and awards granted to non-MRTs on or after 1 January 2022) for a period of seven years, extended to 10 years for colleagues in PRA and FCA designated senior management functions in the event of ongoing internal/regulatory investigation at the end of the seven-year period. Clawback may be applied in circumstances including:</p> <ul style="list-style-type: none"><li>• participation in, or responsibility for, conduct that results in significant losses;</li><li>• failing to meet appropriate standards and propriety;</li><li>• reasonable evidence of misconduct or material error that would justify, or would have justified, summary termination of a contract of employment; and</li><li>• a material failure of risk management suffered by HSBC or a business unit in the context of Group risk-management standards, policies and procedures.</li></ul> <p>– Clawback can also be applied to vested or paid awards granted to designated Executive Officers as defined by the US Securities and Exchange Commission ('SEC') for a period of three years in the event of an accounting restatement due to material noncompliance with any financial reporting requirement under the US securities laws.</p> |
| <b>Sales incentives</b> | <ul style="list-style-type: none"><li>• We generally do not operate commission-based sales plans, unless aligned with local market practice and with appropriate safeguards to avoid incentivising inappropriate sales behaviours.</li></ul>  |



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| <p><b>Identification of MRTs</b></p> | <ul style="list-style-type: none"><li>• We identify individuals as MRTs based on the qualitative and quantitative criteria set out in the PRA's and FCA's Remuneration Rules. Our identification process is underpinned by the following key principles:<ul style="list-style-type: none"><li>- MRTs are identified at Group, HSBC Bank (consolidated) and HSBC UK Bank level.</li><li>- MRTs are also identified at other solo regulated entity level as required by the regulations.</li><li>- When identifying an MRT, HSBC considers a colleague's role within its matrix management structure. The global business and function that an individual works within takes precedence, followed by the geographical location in which they work.</li></ul></li><li>• We also identify additional MRTs based on our own internal criteria, which include compensation thresholds and individuals in certain roles and grades who otherwise would not be identified as MRTs under the Remuneration Rules.</li></ul> |
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