HSBC Private Bank (Luxembourg) S.A. - remuneration practices and governance

Year: 2024

Owner: Head of HR.

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Introduction

This document ("Policy" or "PBLU Policy") sets out the remuneration practices, principles, and procedures applicable to Private Bank (Luxembourg) S.A. (hereafter "PBLU" or "the Bank"), including current and future Branches, notably HSBC Private Branch (Luxembourg) S.A, French Branch (hereafter "PBLU FR[1]"). The Policy has been established based on local legal and regulatory requirements while taking into account the HSBC Group ("Group" or "HSBC") wide remuneration and governance principles with the objective to have a similar approach worldwide.

The Policy applies to all employees of PBLU, with specific provisions on variable remuneration applicable to its "Identified Staff" ("Material Risk Takers" or "MRTs").

The PBLU Policy is required to adhere to remuneration requirements as set out under the '*Loi du Secteur Financier*' dated 5th of April 1993, as amended ("LSF")[2].

Furthermore, as to reflect the underlying philosophy of remuneration requirements under the Capital Requirements Directive, the PBLU Policy also takes into account, the Guidelines on sound remuneration policies published by the European Banking Authority on the 2nd July 2021[3] ("EBA Guidelines").

Further regulatory requirements on remuneration matters, as followed by PBLU are outlined in Schedule I of the Policy.

Our pay strategy is designed to reward competitively the achievement of long-term sustainable performance and attract and motivate the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience with the Group, while performing their role in the long-term interests of our stakeholders.

To achieve this objective, we believe that effective governance of our remuneration practices is a key requirement.

The design and implementation of HSBC Group-wide remuneration policies are overseen by the Group Remuneration Committee ("**Committee**") to ensure what we pay our people is aligned to our business performance and strategy.

Performance is judged not only on what is achieved over the period but more importantly on how it is achieved, as we believe the latter contributes to the long-term sustainability of the business.

Total compensation (fixed pay and variable pay) is the key focus of our remuneration framework, with variable pay (namely annual incentive and long-term incentives) differentiated by performance and adherence to HSBC values.

Our remuneration strategy is delivered through HSBC's reward package, consisting of elements as detailed in section "HSBC Group Remuneration Practices and Governance".

[1] Any reference to PBLU or the Bank should implicitly take into account PBLU FR for the purpose of implementing CRD V requirements in Luxembourg.
[2] The "Loi du 5 Avril 1993 relative au secteur financier" ("**LSF**"), has been amended by the law of the 20 May 2021, transposing the Directive 2019/878/EU of the European Parliament, dated 20 May 2019 ("**CRD V**"), into national law. The CRD V is amending Directive 2013/36/EU ("**CRD IV**") as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures.
[3] EBA/GL/2021/04

Governance framework and oversight

The Group Remuneration Committee oversees the Group's reward policy and its application to Group businesses and functions. All members of the Committee are independent non-executive Directors of HSBC Holdings plc.

Within the Group context, oversight of the design and implementation of the local PBLU Policy and underlying remuneration practices is within the responsibility of the Board of Directors ("**BoD**") of PBLU, which is advised by the PBLU Remuneration Committee ("**RemCo**").

Without prejudice to the Group responsibilities of the Committee, the Committee's responsibilities are preparatory in nature, where the ultimate responsibility for approval, regular review and implementation of the Policy is with the BoD of PBLU, in accordance with applicable local legislation. Indeed, the BoD of PBLU will be responsible for adopting and maintaining the Policy of the Bank and overseeing its implementation to ensure it is fully operating as intended.

In this respect, the Committee's responsibilities at Group level are as defined below.

The Committee is responsible at Group level for:

- Reviewing and approving the principles, parameters and governance framework of the Group's remuneration policy applicable to all Group's workforce;
- Reviewing and approving the remuneration of Group executive Directors, including setting the Directors' Remuneration Policy and members of the Group Executive Committee (including the Group Company Secretary and Chief Governance Officer), together '**Senior Executives**';
- Satisfying itself that remuneration practices comply with the regulatory and other legislative requirements that the Group is subject to;
- Satisfying itself that remuneration for employees in Risk and Compliance functions is determined independently of other business areas;
- Ensuring that no employee is involved in deciding their own remuneration; and
- Satisfying itself that remuneration framework is in line with the risk appetite, business strategy, culture and values, and long-term interests of the Group and its stakeholders, and is free from any form of bias.

To ensure the alignment of remuneration and risk:

- The Group Chief Risk and Compliance Officer attends all Committee meetings to inform the Committee of risk related issues across the Group so they are considered by the Committee in applying the remuneration policy and making remuneration decisions in line with Group principles. The Group Chief Risk and Compliance Officer also updates the Committee on the Group's overall performance against the risk appetite metrics, which describes and measures the amount and types of risk that HSBC is prepared to take in executing its strategy. The Committee uses these updates in considering the risk related adjustments made to the Group overall variable pay pool, to ensure that return, risk and remuneration are aligned across Group entities.
- The Committee consults with the Group Risk Committee ("**GRC**") on the alignment of remuneration with risk appetite and conduct.
- The Committee also considers material issues raised by the Group Audit Committee ("**GAC**") from the work of Internal Audit relating to matters within its terms of reference.

The Committee reviews its terms of reference annually and its own effectiveness as well as the quality of information it receives and recommends any necessary change. A copy of the terms of reference is available on our website: https://www.hsbc.com/who-we-are/leadership-and-governance/board-committees.

Based on the above, the Committee cascades any guidelines or Group related instructions in relation to the remuneration framework to its local entities, including PBLU. In this respect, and taking into account the local governance at PBLU, the Bank's BoD is responsible for the oversight of the design and implementation of the Policy while being advised by the RemCo, as defined below.

The RemCo is responsible at PBLU level for:

- Preparing decisions on remuneration to be taken by the BoD, in particular regarding the remuneration of the Bank's Chief Executive Officer, Authorized Managers, Senior Managers, Senior Independent Control Functions as well as of other MRTs;
- Supporting and advising the BoD on the design of the Policy, including that it is gender neutral and supports the equal treatment of staff of different genders;
- Supporting the BoD in overseeing the implementation of the Policy as to ensure the latter operates as intended, while complying with the legal and regulatory framework;
- Checking whether the existing Policy is still up to date and, if necessary, make proposals for changes to the BoD;
- Reviewing the adequacy of the information provided to shareholders with regard to PBLU remuneration matters, in particular on a proposed higher maximum level of the ratio between fixed and variable remuneration;
- Assessing whether the reward mechanisms and systems adopted by the Group, (i) properly take into account all types of risks and liquidity and capital levels at the level of PBLU, (ii) are consistent with and promote sound and effective risk management and (iii) are in line with the business strategy, objectives, corporate culture and values, risk culture (including ESG) and long-term interest of PBLU;
- Assessing the achievement of performance targets and the need for ex-post risk adjustments, including the application of malus and clawback arrangements;
- Reviewing a number of possible scenarios to test how the Policy reacts to external and internal events, and back-test the criteria used for determining the variable pay and the ex-ante risk adjustment based on the actual risk outcomes.

The BoD is responsible at PBLU level for:

- Adopting, maintaining and overseeing the implementation of the Policy while ensuring it is fully operating as intended;
- Ensuring that the Policy is consistent with and promotes sound and effective risk management at the level of PBLU;
- Approving any changes made to the Policy, including any subsequent material exemptions made for members of staff, and monitor its effect on PBLU;
- Ensuring that the Policy and practices are appropriately implemented and aligned with (i) HSBC Group's remuneration framework, as well as (ii) PBLU's business strategy, objectives, corporate culture and values, risk culture (including ESG risks) and long-term interest;
- Based on the recommendations of the RemCo, reviewing, ratifying and approving the proposed fixed and variable pay pool for PBLU, while taking into account all types of present and future risks and liquidity and capital levels at the level of PBLU;
- Overseeing, determining and approving the remuneration of PBLU's Chief Executive Officer, Authorized Manager, Senior Managers, Senior Independent Control Functions as well as of other MRTs;
- Reviewing and approving proposed higher maximum levels of the ratio between fixed and variable pay, to be submitted to the shareholders;
- Overseeing and approving the identification process of MRTs, including any potential MRT exclusion in line with the legal and regulatory framework;
- Reviewing the results of the annual central independent review of the Policy made by the Internal Audit and where necessary ensure corrective action is taken; and
- Approving any subsequent material exemptions made for individual staff member and changes to the Policy.

As described, above, in its supervisory function, the BoD is responsible for the remuneration of all the employees of the Bank, including the Authorized Managers. However, where a member of the Authorized Management is also an executive director of the BoD, he or she does not participate in any decision with regard to his / her own remuneration. Finally, and as to ensure sound decision making and oversight on remuneration matters, the BoD takes into account the input provided by all competent corporate functions and bodies (i.e., Committee, RemCo, Compliance function, Risk Management function, Human resources, Legal, etc.). The involvement of those functions is further described in section "*PBLU specific Remuneration Rules*", p.11 of the Policy.

HSBC Group Remuneration practices and governance

Note: These principles are designed to cover all HSBC legal entities around the world. Some of them may be specific to some countries. Others may be subject to amendments linked to local regulation. For PBLU, this would be reflected in the *PBLU specific Remuneration Rules* section.

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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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
Fixed pay Attract and retain employees with market competitive pay for the role, skills and experience required.	• Fixed pay may include salary, fixed pay allowance, cash in lieu of pension and other cash allowances in accordance with local market practice. • It is based on predetermined criteria, non-discretionary, transparent and not reduced based on performance. • It represents a higher proportion of total compensation for more junior colleagues. • Fixed pay may change to reflect an individual's position, role or grade, cost of living in the country, individual skills, capabilities and experience.	• Consistent with approach for Group colleagues except fixed pay allowance paid in shares.

	• Fixed pay is generally delivered in cash on a monthly basis.	
Benefits Support the physical, mental and financial health of a diverse workforce in accordance with local market practice.	• Benefits may include, but are not limited to, the provision of a pension, medical insurance, life insurance, health assessment and relocation support.	• 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.
Annual incentive 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.	• 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. • 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. • Variable pay for Group employees identified as Material Risk Takers ('MRTs') is limited to 200% of fixed pay. • 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.	• Annual incentive is determined based on the outcomes of annual scorecard of financial and non-financial measures. • 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 performance measures.
Buy-out awards Support recruitment of key individuals.	• Buy-out awards may be offered if an individual holds any outstanding unvested awards that are forfeited on resignation from the previous employer. • 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.	• For new hires, the approach is consistent with the approach taken for employees and policy approved by shareholders.
New hire indicative variable pay Support recruitment of key individuals.	• 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. • 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.	• For new hires, the approach is consistent with the approach taken for employees and policy approved by shareholders.
Deferral Align employee interests with the medium- to long-term strategy, stakeholder interests and values-aligned behaviours.	• 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). • 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. • 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.	• 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. • All deferred awards are in HSBC shares and subject to a post-vesting retention period of one year.

	• 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 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. • Individuals based outside the UK and identified as MRTs under local regulations, would be subject to local requirements where necessary. • 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. • HSBC operates an anti-hedging policy for all employees, which prohibits employees from entering into any personal hedging strategies in respect of HSBC securities. • 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. • 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. • 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. • 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. • 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.	
Severance payments Adhere to contractual agreements with involuntary leavers.	• 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 cases and all outstanding unvested awards are forfeited. • 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. • 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. • 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	• Any payments will be in line with the policy on loss of office.

	relevant jurisdictions; and (iv) payments made to settle a potential or actual dispute.	

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.

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
Variable pay pool	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. The main quantitative and qualitative performance and risk metrics used for assessment of performance include: • Group and business unit financial performance, considering contextual factors driving performance, and capital requirements; • current and future risks, taking into consideration performance against the risk appetite, financial and resourcing plan and global conduct outcomes; and • fines, penalties and provisions for customer redress, which are automatically included in the Committee's definition of profit for determining the pool. 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.
Individual performance	• 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. • 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.

Control function staff	• 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. • 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. • Their remuneration is determined independent of the performance of the business areas they oversee. • Remuneration is carefully benchmarked with the market and internally to ensure it is set at an appropriate level. • The Committee is responsible for approving the remuneration for the Group Chief Risk and Compliance Officer and Group Head of Internal Audit.
Variable pay adjustments and conduct recognition	• Variable pay awards may be adjusted downwards 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; and – non-compliance with the values-aligned behaviours and other mandatory requirements or policies. • Rewarding positive conduct may take the form of use of our global recognition programme, At Our Best, or positive adjustments to variable pay awards.
Malus	Malus can be applied to unvested deferred awards (up to 100% of awards) granted in prior years in circumstances including: • detrimental conduct, including conduct that brings the business into disrepute; • past performance being materially worse than originally reported; • restatement, correction or amendment of any financial statements; and • improper or inadequate risk management.
Clawback	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: • participation in, or responsibility for, conduct that results in significant losses; • failing to meet appropriate standards and propriety; • reasonable evidence of misconduct or material error that would justify, or would have justified, summary termination of a contract of employment; and • a material failure of risk management suffered by HSBC or a business unit in the context of Group risk-management standards, policies and procedures. – 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.

Sales incentives	• 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.
Identification of MRTs	• 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: - MRTs are identified at Group, HSBC Bank (consolidated) and HSBC UK Bank level. - MRTs are also identified at other solo regulated entity level as required by the regulations. - 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. • 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.

HSBC Group compensation principles considering CRD V requirements on remuneration

The table below sets out how our remuneration practice and governance framework complies with the requirements of PRA's remuneration rules. Specific implementation provisions for PBLU's under CRD V are highlighted in section "*PBLU specific Remuneration Rules*"of the Policy.

Remuneration Principles	How we comply
Principle 1: Remuneration policy promotes sound and effective risk management, through measures that do not induce excessive risk taking	◆ Performance scorecards of GEC align with business objectives and risk objectives and are cascaded to global business lines and regions. ◆ Risk and compliance are a critical part of the performance rating and variable pay assessment process. ◆ Respective objectives are assessed against the risk profile of global business lines and regions. ◆ Performance is judged not only on what is achieved over the period but more importantly on how it is achieved. Subsequently, qualitative performance objectives (including compliance and risk metrics) have enough weight as to prevent any kind of risk taking.
Principle 2: Remuneration policy supports business strategy, objectives, including environmental, social and governance (ESG) risk-related objectives, corporate culture and values, with regard to long-term interests of the company	◆ Remuneration decisions are based on a combination of performance against Group, business line and regional business financial and non-financial (including ESG) objectives and general individual performance expectations of the role concerned. ◆ Adherence to the HSBC values, business principles, Group, business line and regional risk-related policies and procedures are key considerations taken into account for determining variable pay awards.
Principle 3: Remuneration policy includes measures to avoid conflicts of interest	◆ The remuneration framework and its underlying principles are bound to the Conflicts of Interest procedure, as amended from time to time and as posted on the intranet of respective entities. ◆ All variable pay and incentive schemes are required to adhere to a set of policy principles and require the review by – and input from – Finance, Risk, Legal, Compliance and HR Functions. ◆ No executive Director or member of GEC is involved in deciding their own remuneration. The same principle applies throughout the Group, business lines and regions. ◆ The Committee is responsible for agreeing individual remuneration packages (including variable pay awards) for executive Directors, Group Executives and other senior Group employees, including the heads of Control Functions. Where local regulation requires so, the Committee shall act as an advisory body to the respective local governance bodies. In such case, the final approval of remuneration packages will remain in the responsibility of such local governance bodies.
Principle 4: Governance of the remuneration policy and oversight of policy implementation	◆ All members of the Committee are independent non-executive Directors. ◆ The Committee sets the principles, parameters and governance framework of the Group's remuneration policy applicable to all Group employees. ◆ The Committee periodically reviews the adequacy and effectiveness of the Group's remuneration policy. ◆ The Group Chief Risk and Compliance Officer updates the Committee and informs the Committee of risk related incidents and performance against risk appetite for the purpose of making remuneration decisions. ◆ The GRC and GAC update the Committee on issues which may impact the variable pay recommendations for senior management prior to the Committee's approval as part of the Group's governance. ◆ Where local regulation requires so, the Committee submits Group guidelines to local governance bodies for review, adjustments and / approval. Local governance bodies shall ensure to gather all necessary input of relevant corporate functions, as to ensure sound decisions making.
Principle 5: Employees in Control Functions are independent, have appropriate authority and are remunerated	◆ Individuals in Control Functions have a direct reporting line through the functions rather than through the business to ensure conflicts of interest are avoided. ◆ Control Functions are represented at the most senior levels within the Group, including on the GEC.

Remuneration Principles	How we comply
adequately and based on functional objectives	◆ Senior individuals in Control Functions, including Group Chief Risk and Compliance Officer, provide inputs for remuneration decisions, specifically in relation to individuals involved in any Group-wide notable events. ◆ 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. This is to ensure their remuneration is determined independent of the performance of the business areas they oversee. Remuneration for Control Function staff is carefully benchmarked with the market and internally to ensure that it is set at an appropriate level. ◆ The Committee is responsible for agreeing individual remuneration packages (including variable pay awards) for the heads of Control Functions. Where such heads of Control Functions are located in locations with specific local governance requirements, the Committee shall advise local governance bodies on recommended remuneration packages, which shall then review, adjusted and / or approved such recommendations.
Principle 6: Total variable remuneration does not limit the firm's ability to strengthen its capital base	◆ Group's variable pay pool is determined based on evaluation of financial performance and performance against risk metrics. ◆ Funding of the Group's variable pay pool is sized in relation to overall Group performance, Global Business performance, performance against the risk metrics, market benchmarks and overall affordability. Capital strength and shareholder returns are also taken into account at Group and respective regional levels. ◆ The Group's target policy is for the vast majority of post-tax profit to be allocated to capital and to shareholders. ◆ The variable remuneration, including the deferred portion, is paid or vests only if it is sustainable according to the financial situation of either the Group as a whole, or the local entity concerned. ◆ To this end, all deferred awards are subject to malus (awards made to MRTs are also subject to clawback provisions) and therefore can be reduced, cancelled or paid back in appropriate circumstances including (but not limited to): • Individual or business unit conduct is considered detrimental; • Restatement, correction or amendment of any (i.e., Group or local) financial statements; • Past performance being materially worse than originally understood; and / or • Improper or inadequate risk management.
Principle 7: Limitation and restructuring of variable remuneration and ban on variable remuneration for firms benefiting from exceptional government intervention	◆ In the event that the Group or any of its Group entities received exceptional government intervention it would apply this principle.
Principle 8: Variable pay components or pools determined based on profits and adjustment for all types of current and future risks	◆ Group's variable pay pool is determined in the context of Group profitability. ◆ Profit measures used to determine variable pay pool is adjusted for appropriate current and future risks. The Committee also takes into consideration the Prudential Valuation Adjustment ('**PVA**') in determining the variable pay pool. ◆ The Committee exercises its judgement to ensure the variable pay pool reflects the overall performance of the Group including performance against qualitative risk objectives. ◆ Quantitative criteria cover a period which is long enough to properly capture the risk taken by MRTs, business lines as well as respective entities and are adjusted according to any type of present and future risks and include economic efficiency measures. ◆ Group Variable pay is then cascaded by each of the global lines (business or function). The consolidation of each of those budgets determine the proposed regional / country pools, taking into account regional / local performance. Where required, local governance bodies shall assess whether such proposals would allow them to achieve and maintain a sound capital base, while taking into account the risk profile of the entity concerned and any present and future risks. Local governance bodies shall then review, adjust and / or approved the recommended variable pay pool.

Remuneration Principles	How we comply
Principle 9: Pension policy is in line with business strategy, objectives, values and long-term interests and discretionary pension benefits are in the form of shares or other instruments	◆ Group pension policies are reviewed to ensure they are in line with market practice and sustainable. ◆ The Group policy is not to award any discretionary pension benefits.
Principle 10: Employees undertake not to use personal investment strategies to undermine the risk alignment effects of remuneration arrangements	◆ Our policy requires employees not to use personal hedging strategies or remuneration and liability related insurance to undermine the risk alignment effects embedded in our remuneration framework.
Principle 11: Variable remuneration is not paid through vehicles that facilitate non-compliance with the Remuneration Rules	◆ All variable pay awards are currently delivered in the form of cash or shares / share-linked instruments in accordance with the respective remuneration requirements (e.g. CRD V Rules). Thus, the variable pay is not paid through methods or vehicles that would in any way circumvent respective remuneration rules.
Principle 12: Remuneration structure is consistent with regulatory remuneration principles across various jurisdictions and complies with CRD V	◆ For all employees, remuneration decisions are based on a combination of quantitative and qualitative, including financial and non-financial performance business results, performance against objectives set out in performance scorecards, general individual performance of the role and adherence to the HSBC values, business principles, Group risk-related policies and procedures and Global Standards. ◆ Quantitative criteria cover a period which is long enough to properly capture the risk taken by MRTs, business lines as well as respective entities and are adjusted according to any type of present and future risks. ◆ Guaranteed variable remuneration is awarded in exceptional circumstances for new hires and is limited to the individual's first year of employment only. The exceptional circumstances where HSBC would offer guaranteed variable remuneration would typically involve a critical new hire and would also depend on factors such as the seniority of the individual, whether the new hire candidate has any competing offers and the timing of the hire during the performance year. ◆ The total variable pay awards for MRTs are structured as follows: • Total variable pay is capped to a maximum of 200% of total fixed pay. Where local requirements set a lower limit, with the necessity to request shareholder approval the Group or any region concerned shall engage in the necessary process, and through respective governance bodies as required by the local legal and regulatory framework. • The higher of any regulatory deferral requirement and the Group deferral requirement is applied for all variable pay awards. • In general, 40% of total variable pay award (annual incentive plus any long-term incentive award) is deferred for four years, five years or seven years. This increases to 60% for a high variable pay amount in line with regulatory requirements. • At least 50% of annual incentive award (both deferred and non-deferred component) is generally delivered in shares and subject to a retention period of up to one-year on vesting. • Long-term incentive awards are subject to a three-year performance period, and vesting is dependent on performance achieved against pre-defined performance targets. The awards for executive Directors vest in five equal instalments after the end of the performance period and subject to a retention period of up to one year. ◆ Variable pay awards may be adjusted downwards 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 directly or any of its Group entities; and • Non-compliance with the HSBC Values and other mandatory requirements or policies. ◆ Malus can be applied to unvested deferred awards granted in prior years in circumstances including: • Detrimental conduct, including conduct that brings the business into disrepute;

Remuneration Principles	How we comply
	• Past performance being materially worse than originally reported; • Restatement, correction or amendment of any financial statements; and • Improper or inadequate risk management. Variable pay awards will be subject to clawback, for a period of time covering at least the deferral and retention periods. ◆ Clawback can be applied to vested or paid awards granted in circumstances including: • Participation in, or responsibility for, conduct that results in significant losses; • Failing to meet appropriate standards and propriety; • Reasonable evidence of misconduct or material error that would justify, or would have justified, summary termination of a contract of employment; and • A material failure of risk management suffered by HSBC or a business unit in the context of Group risk-management standards, policies and procedures.

PBLU specific Remuneration Rules

The present section, sets outs how the PBLU Policy and underlying remuneration practice and governance framework complies with additional local requirements not included (or less explicit) in the HSBC Group remuneration policy:

1. Context & Scope	
Context	◆ Within the Group context, oversight of the design and implementation of the local PBLU Policy and underlying remuneration practices, is within the responsibility of the BoD of PBLU, which is advised by the Bank's RemCo. ◆ The governance around local remuneration practices aims at ensuring a sound and effective risk management of PBLU, and which, in line with LSF 38-5 a) does not (i) encourage and does not lead to an excessive risk taking by any of its members of staff and / or (ii) exceed the level of tolerated risk by the Bank. ◆ Notably, and in line with LFS 38-5 b), PBLU remuneration practices and procedures are aligned with conflict of interest and conduct of business obligations, taking into account the fair treatment of our clients as well as their best interests, through high value services, matching specific client needs. Respective measures are outlined under Principle 3 of the HSBC Group Compensation principles considering CRD V requirements on remuneration. ◆ The remuneration framework in place for all our members of staff does not provide any incentives for excessive risk taking or mis-selling of services rendered to our clients. Indeed, our remuneration practices and procedures are aligned with the Bank's overall risk appetite, including reputational risks and risks resulting from the mis-selling of services. ◆ In line with Group principles, and as to ensure coherent and consistent remuneration practices over time, PBLU ensures a remuneration framework compatible and consistent with its business and risk strategy, its objectives, its corporate culture and values, as well as with its long-term interests, including environmental, social and governance risks (**"ESG risks**"). ◆ To this end, and in line with LSF 38-6 c), we ensure that our pay structure, including the variable pay, does not limit the Bank's ability to achieve and maintain a sound capital base. Indeed, and as to avoid any inconsistent attribution of variable pay and to reflect individual and global performances over time, the attribution of variable pay is based on the performance of the individuals, the business unit concerned and the overall results of the Bank. ◆ Performance is judged not only on what is achieved over the period but more importantly on how it is achieved, as we believe the latter contributes to the long-term sustainability of the business. ◆ Total compensation (fixed pay and variable pay) is the key focus of our remuneration framework, with variable pay (namely annual incentive and long-term incentives) differentiated by performance and adherence to HSBC values. ◆ Furthermore, our remuneration framework ensures an appropriate balance between the fixed and variable components of pay, where the fixed component represents a sufficiently high proportion of the total compensation. ◆ The given remuneration framework allows the operation of a fully flexible remuneration policy on variable pay components, including the possibility to pay no variable remuneration at all. ◆ The PBLU remuneration principles follow the HSBC Group Global and regional principles as detailed in: o Shedule II: Managing Performance – HSBC Human Resources Global Procedure. o Shedule III: Managing Pay – HSBC Human Resources Global Procedure. o As a subsidiary of HSBC Continental Europe, the PBLU remuneration principles follow the HSBC Continental Europe Remuneration principles and in particular "HSBC Europe Sustainability Risk" as detailed in Schedule IV.

	◆ Beyond addressing Group principles, the Policy seeks to address the legal and regulatory requirements applicable to PBLU under the laws of Luxembourg, directly applicable EU law as detailed in Schedule I.
Scope	◆ The Policy has been established based on local legal and regulatory requirements while taking into account the HSBC Group wide remuneration and governance principles with the objective to have a similar approach worldwide. ◆ The Policy applies to all employees of PBLU, with specific provisions on variable remuneration applicable to MRTs (please refer to section 6 below). Notably, for the sake of clarity PBLU distinguishes the following categories of staff, who fall in scope of the Policy, hence of the identification MRT process: ○ **Local Employees**: Employees having a local employment contract with PBLU and working only for PBLU; ○ **GEC (Global Employment Contracts also called Multi-Party Agreement) Employees**: Employees having a Global Employment Contract[4], hence working on behalf of several Luxembourg HSBC entities, notably PBLU and / or HSBC Continental Europe, Luxembourg and or HSBC Investment Funds (Luxembourg) S.A[5]; ○ **Multi-country Employees**: Employee having a non-Luxembourg employment contract (with a non-Luxembourg HSBC Group entity) working for PBLU and Luxembourg on top of other non-Luxembourg HSBC Group entities. ◆ MRTs are, notably, members of staff whose professional activities have a material impact on the Bank's risk profile in accordance with Article 92(3) of the CRD V (Article 38-5(2) LSF), as well as qualitative and quantitative criteria as set out under Articles 5 and 6 MRTs Regulation[6] (all together "**MRT Regulation**"). ◆ As per the above: ○ **Local Employees who are identified as MRTs**: fall under **CRD V remuneration rules** (*see also the Policy section "PBLU specific Remuneration Rules", point 6. for pay out provision on variable compensation*). ○ **GEC Employees who are identified as MRTs**: fall under **CRD V remuneration rules** (*see also the Policy section "PBLU specific Remuneration Rules", point 6. for pay out provision on variable compensation*). Even though a proportion of their activity would relate to work conducted for HSBC Investment Funds (Luxembourg) S.A., the latter subject to AIFMD / UCITS remuneration rules, CRD V being considered as more restrictive, PBLU deems that this is the most relevant and conservative approach. ○ **Multi-country Employees who are identified as MRTs**: Where an outsourced Group function (i.e., Multi-country Employee) would be considered as MRT the respective employee, would fall under **CRD V remuneration requirements** in proportion of the contractual arrangements in place between PBLU and the Group. This approach allows a full alignment with (i) the Group remuneration framework and (ii) compliance with the LSF and EBA Guidelines. ◆ For the sake of completeness, the Policy is adjusted to the specific situation of PBLU FR, notably with regard to the French labour law (see section 10 "PBLU FR specificities"), while complying with the relevant CRD V requirements and the EBA Guidelines.
2. Basis of Analysis	
Material Risk Takers	◆ PBLU conducts a self-assessment in order to identify MRT based on (i) qualitative and quantitative criteria, as prescribed by the MRT Regulation, and (ii) PBLU's internal criteria, which include compensation thresholds and individuals in certain roles and grades who otherwise would not be identified as MRTs under MRT Regulation, that reflect the levels of risk of its different activities within and the impact of staff members on the risk profile of PBLU.

[4] The Global Employment Contract ("**GEC**") is an employment contract that governs the relationship between one Luxembourg based employee and several employers in Luxembourg. Under a GEC, the employee alternatively works for and on behalf of the employers (that are part of the GEC). The employee's duties may vary over the time depending on the business needs of each employer. Under a GEC, the employee is paid by one employer (i.e., the Master Company) on behalf of all the employers.

[5] HSBC Investment Funds (Luxembourg) S.A, is authorized as alternative investment fund manager according to the Law of 12 July 2013 and as a management company under Chapter 15 of the Law of 17 December 2010, and subsequently, subject to AIFMD / UCITS remuneration rules.

[6] COMMISSION DELEGATED REGULATION (EU) 2021/923 of 25 March 2021 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards setting out the criteria to define managerial responsibility, control functions, material business units and a significant impact on a material business unit's risk profile, and setting out criteria for identifying staff members or categories of staff whose professional activities have an impact on the institution's risk profile that is comparably as material as that of staff members or categories of staff referred to in Article 92(3) of that Directive

	◆ Furthermore, PBLU also assesses whether functions performed by Group employees on behalf of PBLU, should also be identified as MRTs. Where an outsourced Group function would be considered as MRT the respective employee holding such function, would fall under the remuneration requirements as outlined herein, in proportion of the contractual arrangements in place between PBLU and the Group. This approach allows a full alignment with (i) the Group remuneration framework and (ii) compliance with the LSF and EBA Guidelines. ◆ The methodology of identification of MRTs is aligned in all HSBC Continental Europe branches and subsidiaries including PBLU. ◆ On an annual basis, the RemCo reviews the methodology used for the purpose of the identification process and submits any proposals for adjustment to the BoD for approval. ◆ 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 Authorized Management. 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 BoD once per year. To this end, the BoD will be advised by the RemCo, which furthermore oversees the identification process. The identification process and its results are also subject to an independent central internal review.
Proportionality Principle and application of the remuneration requirements at PBLU	◆ Under the conditions outlined under Articles 94(2) and 94(4) of the CRD V, and as transposed in Article 38-6(2) and 38-6(3) of the LSF, an institution may choose to waive certain of its obligations with regard to the pay-out process. This principle is known as the “proportionality principle”. ◆ To this end, and in line with Section 4 of the EBA Guidelines, the proportionality principle encoded in the CRD V aims to match remuneration policies and practices consistently with the individual risk profile, risk appetite and strategy of an institution, so that the objectives of the remuneration requirements are effectively achieved. ◆ When applying the remuneration requirements and their underlying provisions in a proportionate manner, beyond criteria set in the CRD V (or Articles 38-6(2) and 38-6(3) of the Law), institutions should consider a combination of all the following criteria to assess and determining the required level of sophistication of their remuneration practices, as to determine what ought to be considered as proportionate to the institution’s risk profile, appetite and underlying strategy: • The size of the institution • The internal organization of the institution; and • The nature, scope and complexity of the institution’s activities. ◆ After having conducted a self-assessment on the matter, PBLU considers that it does not meet the conditions to apply the proportionality principle at institutional level. Subsequently, PBLU will apply the proportionality principle at individual level, in accordance with Article 94 (3) of the CRD V and as transposed by Article 38-5 (2) of the LSF. This means that PBLU chooses to neutralize following pay-out requirements for an MRT whose annual variable pay does not exceed EUR 50 000 and does not represent more than one third of the staff member's total annual remuneration (“**De Minimis MRT**”): • Defer at least 40% to 60% of the total variable pay over a minimum of 4 to 5 years; • Pay at least 50% of the pay in shares or similar instruments (i.e., share like); and • Apply a retention period of up to 1 year, following vesting on the variable pay paid in or as instruments. *Specific pay-out provisions applicable to all members of staff are highlighted under section “6. Pay-out of variable compensation” below.*

3. Remuneration Structure

General principles	◆ The PBLU remuneration structure is in accordance with the HSBC Group-wide principles as determined by the Group Committee. It is governed by the HSBC Group principle, however with a local oversight by the BoD. ◆ The PBLU remuneration structure is designed to reward competitively the achievement of long-term sustainable performance and attract and motivate the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience with the Group, while performing their role in the long-term interests of its stakeholders. ◆ The PBLU remuneration structure is based on sound principles and established market practices, is benchmarked against the competitive market and is designed to enable PBLU to recruit and retain the best staff. Employee fixed pay is reviewed annually in the context of business performance, market practice, union negotiations, where relevant, and internal relativities. ◆ In line with the EBA Guidelines §129, the remuneration structure is either fixed (payments or benefits without consideration of any performance criteria) or variable (additional payments or benefits depending on performance or, in certain cases, other contractual criteria). There is no third category of remuneration. The structure comprises the elements listed below and applies to all employees including MRTs ◆ In line with LSF 38-6 f), fixed and variable components of total remuneration are appropriately balanced, and the fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration component.
Fixed Pay	• Fixed Compensation means all contractually agreed remuneration that is not linked to performance. For the sake of clarity, fixed pay shall be understood as any remuneration element, which is considered as fixed, either mandatory or complementary under national law and part of the employee's contractual "routine" employment package, in line with the EBA Guidelines, § 131. • Fixed pay levels reflect the individual's role, experience, and responsibility. Changes are made within the context of local requirements and market practice. • Fixed pay is benchmarked on an annual basis against relevant comparator groups and they do not vary with performance. Where applicable, the terms and conditions of the Banking Collective Agreement are applied. • **Fixed pay** is defined as the total of cash and benefits in kind, which are as follows: o For Luxembourg employees: ▪ Base salary paid for 12 or 13 months as appropriate and contractually applicable. ▪ Banking Collective Agreement related payments and allowances. o For France employees: ▪ Base salary paid for 12 or 13 months as appropriate and contractually applicable. ▪ Banking Collective Agreement related payments and allowances. ▪ Company Bargaining Agreement related payments and allowances. • **Benefits** are provided in accordance with the local marketplace. o Main current benefits offered in Luxembourg include: ▪ Car Allowance or Company car lease scheme (for certain grades). ▪ Complementary Pension Scheme[7] (contributions based on fixed compensation only). ▪ Life and Disability Insurance, Subsidized Mortgage, Sympass (discount) card. ▪ Luncheon vouchers. o Main current benefits offered in France include: ▪ Supplementary Pension Scheme (contributions based on total compensation). ▪ Life and Disability Insurance. ▪ Healthcare scheme. ▪ Savings Scheme.

[7] Pension benefits (employer or personal contribution) as defined herein, constitute a part of routine employment packages as defined under EBA Guidelines §131. Subsequently, any pension benefits must be in the form of a pension contribution, calculated as a certain percentage of the employee's base salary or a part thereof, to a third party defined contribution pension scheme. In the meaning of the Luxembourg Social Security Code on Social contributions (i.e. Pillar 1) and the Law of June 8, 1999, as amended by the Law of August 1, 2018 with regard to complementary pension schemes (i.e. Pillar 2), the above-described pension benefits are not based on performance and therefore, in line with point 131 of the EBA Guidelines. The respective pension benefits should not be considered discretionary but should be considered as part of routine employment packages. In line with Principle 9 in the HSBC Group compensation principles considering CRD V requirements on remuneration on page 14, the Bank does not offer discretionary pension benefits.

Variable Pay – general provisions	◆ Variable Compensation means compensation consisting of awards based on performance criteria. ◆ Individual awards are determined on the basis of individual performance against their performance goals for the year, which are aligned to the Group's strategic actions, a global risk objective and adherence to HSBC Values and business principles. ◆ Performance is defined as a combination of: • HSBC Group results versus scorecard objectives; • Business results of the Global Businesses and Global Functions versus scorecard objectives; • Business results of PBLU versus scorecard objectives; and • Individual achievement of results versus scorecard objectives. ◆ Variable pay can take one of the two following forms: • Performance Related Discretionary Annual Bonus in cash; and • Performance Related Discretionary Annual Bonus using long-term incentive awards. ◆ The respective form to be used for the pay-out of variable pay, and as further highlighted under section *"6. Pay-out of variable compensation"*, will depend on different criteria as highlighter hereof: • Level of variable pay; • Level of variable pay compared to the total compensation (i.e., proportionality principle); and • Classification as MRT or not. ◆ Variable pay is, at the time of the award and where applicable during deferral and retention periods, subject to adjustment (i.e. malus and/or clawback in the circumstances described under *Principle 12 in the HSBC Group compensation principles considering CRD V requirements on remuneration on page 14*). In such circumstances, PBLU has the right to clawback some or all (100%) variable part of the remuneration paid to the given member of staff. *For further details, please refer to Principle 12 in the HSBC Group compensation principles considering CRD V requirements on remuneration on page 14.*
Retention Bonus	◆ No retention bonuses are anticipated for PBLU employees. However, where such practice would be foreseen, PBLU would follow specifications as provided under the EBA Guidelines §146. In this respect, when assessing and considering whether the award of a retention bonus to identified staff is appropriate, PBLU would take into account at least: • The concerns that lead to the risk that certain staff may choose to leave PBLU; • The reasons why the retention of that staff member is of material importance to PBLU; • The consequence if the staff member concerned leaves PBLU; and • Whether the amount of the awarded retention bonus is necessary and proportionate to retain the targeted staff member.
Buy-out from previous employment contracts	◆ Buy-out awards may be offered in the case of new hires to support the recruitment of key individuals and if an individual holds any outstanding unvested awards that are forfeited on resignation from the previous employer. ◆ 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 and must align (in line with LSF 38-6 I) with the long-term interests of PBLU including performance and clawback arrangements. ◆ As a result: (1) The buy-out award are made in accordance with applicable laws and therefore comply with the requirements on variable remuneration, as high-lighted throughout the Policy and notably section 6. (2) PBLU will replace forfeited awards with deferred shares and deferred cash on a like for like basis, to the extent that this is administratively feasible, following the below principles: ○ Deferred cash awards will be replaced with HSBC deferred cash awards. ○ All other instruments will be replaced with HSBC deferred share awards.
Guaranteed Variable pay	◆ In line with §156 of the EBA Guidelines, if guaranteed variable remuneration are awarded by the Bank in order to hire new staff these (i) are exceptional and only if the Bank has a strong and sound capital base and (ii) are limited to the first year of employment. ◆ So far, guaranteed variable remuneration is not part of PBLU's compensation philosophy and this is not awarded.

New hire indicative variable pay	◆ 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. ◆ 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.
Severance payments	◆ As a general principle, contractual payments related to the early termination of a contract do not form any part of the remuneration policy of the respective Group companies in Luxembourg. Where the case may be, severance payments on top of the legal requirements may be considered to prevent potential labour dispute or end such dispute. In such case, PBLU shall comply with provisions set out under section 9.3 of the EBA Guidelines. ◆ In any case, there shall be no golden parachute, i.e., contractual severance entitlements that do not reflect actual performance achieved by the relevant staff before leaving the Bank. ◆ Where the case may be, severance payments shall in all cases be at minimum those required by law or collective bargaining agreements.
4. Performance Management	
Performance Management	◆ The Performance Scorecard of the Group GEC is cascaded down to individuals throughout the Group thereby driving an aligned set of objectives. This framework impacts on the level of individual remuneration received as achievement of such objectives is an important determinant of the level of variable compensation awarded. In line with the requirements set out in the MIFID regulations, employees are not encouraged to act against the interests of their clients. The objectives typically cover two categories: financial and non-financial, ensuring a rounded approach to objective setting. ◆ Whilst the achievement of financial objectives is very important, the other objectives relating to the strategy execution of the Group, compliance and reputation, ESG and people and HSBC Values are also key to financial performance and sustainability of the Group. Subsequently, the assessment of staff is conducted based on qualitative and qualitative objectives, financial and non-financial. Such objectives are cascaded down at the level of the local regions, including PBLU. ◆ To this end, the Bank uses an appropriate balance between quantitative and qualitative as well as absolute and relative criteria (please also refer to section 5 below) ◆ The performance assessment sets in a multi-year framework in order to ensure that the assessment process is based on longer-term performance and that the actual payment of variable remuneration is spread over a period, which takes account of the underlying business cycle of the Bank and its underlying business risks. ◆ Performance management at HSBC and PBLU is a continuous process, including specific activities throughout the year. The following are minimum requirements: • Defining what is expected of employees, via goals with clear measures, which are specific to the individual/role and dynamic as priorities change. • Supporting employees with feedback and regular conversations addressing 'how are they doing' and 'how can they improve?' • Carrying out a simple, transparent, and balanced year-end wrap up, where employees understand 'what does it mean for them?'. • Recognising where there are occasions when performance does not meet expectations and taking action to improve performance. This may be through open discussions on how to improve performance and there may be a need to initiate and follow a formal process to improve performance. ◆ All employees of the respective Group companies in Luxembourg (including PBLU) have objectives set at the beginning of each performance year using the Performance Scorecard format. Each employee's performance will be evaluated by their respective manager against the objectives that have been set. ◆ Ratings are then quality-checked by the Executive Committees of the respective Group companies in Luxembourg (including PBLU) to ensure that performance ratings are objective and fairly differentiated. Quality control, supported by the HR function, involves comparing and assessing the performance of employees against their peer group, a defined performance benchmark and the external competitive market. This quality checked rating distribution is then approved by the respective Global Businesses and Global Functions and is taken into account when deciding on the award of individual discretionary bonuses.

	◆ In addition, the Employee Recognition and Conduct Framework sets out processes for recognising exceptional performance and / or behaviour. Where an employee has done something exceptional, either in terms of behaviour aligned to our values or in terms of performance, positive adjustments may be made to increase the individual's variable pay above-and-beyond the standard expectation. ◆ Conversely, there is a process to identify behavioural transgressions for all employees during the year. These reviews determine whether there are any instances of non-compliance with Group policies and procedures, or non-adherence to HSBC Values and other expected behaviours. Instances of non-compliance are escalated to line managers and senior management where necessary for consideration in variable pay decisions in accordance with the Employee Recognition and Conduct Framework. Any breaches discovered would result in a lower performance rating and subsequently impact the variable pay decision, and in some instances, an adjustment can also be applied to any discretionary variable pay. *For more details, please refer to schedule II Managing Performance – HSBC Human Resources Global Procedure of the present Policy.*
5. PBLU variable pay pool	
Oversight	◆ In line with *Principle 6 in the HSBC Group compensation principles considering CRD V requirements on remuneration on page 13*, the Group variable pay pool is cascaded by each of the global lines (business or function). The consolidation of each of those budgets determine the proposed regional / country pools, taking into account regional / local performance, including at the level of PBLU. ◆ The PBLU RemCo in collaboration of respective functions (i.e., Risk and Compliance) reviews the proposed local variable pay pool and assesses the necessity of potential adjustments. For this purpose, the RemCo uses an appropriate combination of quantitative and qualitative criteria in the form of absolute and relative criteria to ensure that all risks, performance and necessary risk adjustments are reflected. ◆ Upon completion of this step, the proposal is submitted to the BoD of the Bank for approval. ◆ Based on input provided by HR, the RemCo may recommend potential changes / adjustments that it feels are appropriate, taking into account the Bank's business and risk performance. Indeed, the BoD will also ensure that in line with Article 38-6 j), LSF: • The measurements of performance used to allocate the Bank's local variable pay pool includes an adjustment for all types of current and future risks and takes into account the cost of the capital and the liquidity required; and • The allocation of the Bank's local variable pay pool takes also into account all types of current and future risks. ◆ Final approval of the local variable pay pool is provided by the BoD of the Bank, taking into account, the Bank's capital and liquidity requirements and all types of current and future risks, as described above. ◆ Thus, and in line with LSF 38-6 c) the governance in place, is structured in a way that supports the Bank in achieving and maintaining a sound capital base.
6. Pay-out of variable compensation	
Bonus cap	◆ **<u>For non-MRTs</u>**: The Bank ensures an appropriate balance between the fixed and variable components of pay, without however introducing a bonus cap. ◆ **<u>For MRTs</u>**: the total variable pay is limited to 100% (if applicable, up to 200% with shareholders' approval, under certain conditions as laid out below) of the total fixed pay. Where for this population a high ratio (up to maximum 200%) would be sought, the following procedure will be undertaken: • PBLU shall notify the CSSF of its intent to distribute a variable pay exceeding 100%; • Shareholders HSBC engage in a voting process. When voting, all potential impacts on PBLU have to be taken into consideration; • For the vote to be valid, it shall represent a majority of at least 66% provided that at least 50% of the shares or equivalent ownership rights are represented or, failing that, shall be represented by a majority of 75% of the ownership rights represented; and • Once the vote has been completed and approved, PBLU shall send a notification to the CSSF on the outcomes of the vote. The above process will be followed in line with CSSF Circular 15/622.

Bonus cap calculation	◆ When establishing the amount of the total annual variable pay to be attributed to a staff member and the ratio between the variable and fixed annual pay, PBLU takes into account the below: • the total annual variable pay awarded for the performance year that equals the financial year; and • the annual fixed pay awarded for the financial year. Whereas annual fixed pay includes any fixed compensation as laid in the Policy and as specified under the EBA Guidelines, paragraphs 132 and 133.
Pay-out: non MRTs	◆ **If the variable pay is equal or below USD 100,000** (or equivalent in EUR currency), the employee shall receive his/her variable pay in form of an upfront payment in cash. ◆ **If the variable pay is more than USD 100,000** (or equivalent in EUR currency), then a proportion of the variable pay is subject to deferral as set out in the table below. Generally, the relevant proportion of variable pay will be deferred in the form of HSBC ordinary shares that will vest over a period of three years.
Pay-out: MRTs	◆ As defined above, PBLU applies the proportionality principle at individual level. Subsequently: • a **De Minimis MRT**, shall receive variable pay in accordance with the deferral policy listed above. • an **MRT**, shall follow rules as highlighted below.

Total Variable Pay (USD)	Deferral % of Total Variable Pay (subject to variance)
Up to 100,000	0%
100,001 to 200,000	10%
200,001 to 350,000	20%
Above 350,000	30%

Topic	Details			
Deferral period, vesting schedule & retention period	**MRT category**	**Deferral period**	**Retention period after vesting**	**Vesting schedule**
	Senior Manager MRTs (Authorized Management and Senior Management)	5 years	1 year	Pro-rata vesting in five equal tranches with the first vesting occurring at the first anniversary from the date of grant.
	Other Risk Manager MRTs *(individuals with managerial responsibility in Control Functions and material business units)*	4 years	1 year	Pro-rata vesting in four equal tranches with the first vesting occurring at the first anniversary from the date of grant.
	Other MRTs	4 years	1 year	Pro-rata vesting in four equal tranches with the first vesting occurring at the first anniversary from the date of grant.
Variable pay deferral rate	At least 40% for variable pay awards of **less than** GBP 500,000 (or local equivalent). At least 60% for variable pay awards **equal to or greater** than GBP 500,000 (or local equivalent) or where the individual is an Executive Director on the BoD.			
Variable pay form	**Non-deferred**: At least 50% in vested shares (subject to a retention period). **Deferred**: At least 50% in deferred shares (subject to a retention period).			
Malus / clawback	All deferred awards are subject to malus and clawback provisions. All non-deferred awards are subject to clawback provisions.			

For the purpose of section 6 herein, please also refer to schedule V: additional HSBC policies relevant for deferrals, malus & clawback.

7. Governance – involvement of additional functions

BoD	◆ As laid out under page 3 of the Policy

	◆ The members of the BoD, collectively, have adequate knowledge, skills and experience with regard to remuneration policies and practices as well as of incentives and risks that can arise therefrom.
RemCo	◆ As laid out under page 3 of the Policy. ◆ The RemCo is composed of members of the BoD, who do not perform executive functions. ◆ The RemCo includes a majority of members who are independent and is chaired by an non-executive member in line with HSBC Group guidelines.
Authorized Management	◆ The Authorized Managers, together with the Head of HR, and with the involvement of the Control Functions, is responsible for daily / operational management of the Policy. ◆ The Authorized Managers work closely with the RemCo, BoD and relevant committees, to ensure the Policy is consistent with and promotes sound and effective risk management.
Control Functions	◆ The Control Functions (e.g., Risk and Compliance) of the Bank assist the RemCo and the BoD in determining the overall remuneration strategy, in the context of the promotion of effective risk management. The Control Functions, in particular, take all necessary measures in order to ensure the compliance of the present Policy with laws/circulars/directives. ◆ The Control Functions assist and inform on the definition of suitable risk-adjusted performance measures, as well as in assessing how the variable compensation structure affects the risk profile and culture of the Bank. ◆ They will validate and assess risk adjustment data and consult the RemCo and the BoD on these matters. Going further they provide effective input in accordance with their roles into the setting and / or review of the variable pay pool as proposed by the Committee, performance criteria and remuneration awards where those functions have concerns regarding the impact on staff behaviour and the riskiness of the business undertaken. ◆ They are also involved on an ongoing basis in the staff identification process in accordance with their respective roles. ◆ They review Non-Financial Risk scorecard for the Front Office population on a quarterly basis. ◆ They review the remuneration policy to ensure alignment with the Risk Management Framework.
HR function	◆ The HR function participates and informs on the design and the evaluation of the Policy for the Bank, including the remuneration structure, remuneration levels and incentive schemes, staff identification, in a way that will not only attract and retain the staff but will also ensure that the Policy is aligned with PBLU's risk profile. ◆ Furthermore, and within the context of gender neutrality, the HR function shall conduct an annual assessment and monitoring of the gender pay gap for: • MRTs, excluding members of the Authorized Management; • The Authorized Management; and • other staff. ◆ HR shall document the outcomes of the respective monitoring and pay gap assessment. In case of gaps, HR shall document the roots of potential gaps, and submit such analysis to the RemCo and BoD. On that basis, the BoD shall take necessary and appropriate actions, thus ensuring PBLU operates a gender-neutral Policy.
Review of the Policy	◆ The Internal Audit shall conduct at least annually an annual and independent review of the Policy and underlying practices. The review includes also an analysis of whether the Policy is gender neutral, this as well from a design as from an operating effectiveness perspective. Under the oversight of the BoD, the Internal Audit remains in charge of the central independent review of the Policy, including its implementation. The final results of the review on the Policy and practices will be made available to the BoD.
Committee	◆ As laid out under page 2 of the Policy. ◆ The Committee relies on the PBLU BoD to report any information deemed necessary as per the Group remuneration framework.

8. Disclosure

Internal disclosure	◆ All employees are regularly informed about their remuneration, criteria used to measure performance and the link between performance and pay through Group HR Communications and information available on the HR intranet.
External disclosure	◆ In compliance with article 38-11 of the LSF, PBLU explains on its website how it complies with corporate governance and remuneration. ◆ PBLU shall disclose information as required under Article 450, of the European Regulation (EU) No 2019/876, of 20 May 2019, amending Regulation (EU) No 575/2013. ◆ CSSF will collect information published in compliance with Article 450.1.g), h), i), j) and k) of above - mentioned regulation.
Sustainability-related disclosure	◆ The Bank shall comply with Article 5 of the European Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector. To this end the Bank includes (i) in the present Policy information on how remuneration practices are consistent with the integration of sustainability risks, and (ii) shall publish that information on its website.
9. Additional Information	
Additional Information	◆ The Policy set out in this document does not represent a complete and definitive statement of HSBC Group remuneration policies. The definitive policies, which this document does not seek to supersede, are contained in various detailed documents in existence within the HSBC Group and as such are subject to change from time to time. The detailed policy documents and other related documents can be made available for inspection if required.
10. PBLU FR Specificities	
PBLU FR specificities that supplement the HSBC Global Policies and the PBLU Specific Remuneration Rules	◆ France employees must not be included in calibration/forced ranking sessions, regardless of the country / region their manager works in. ◆ France employees cannot have their behaviours assessed based on HSBC values and cannot be subject to behavior gateway. Nevertheless, the annual performance rating has to take into account both what has been delivered by the employee versus objectives set at the start of the year and the way it has been delivered.

Schedule I: PBLU related regulatory framework

Overview

Level	Reference
Directive	◆ DIRECTIVE (EU) 2019/878 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures.
Regulation	◆ Article 450, of the European Regulation (EU) No 2019/876, of 20 May 2019, amending Regulation (EU) No 575/2013. ◆ Article 5 of the European Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector. ◆ Commission Delegated Regulation (EU) 2021/923 of 25 March 2021 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards setting out the criteria to define managerial responsibility, control functions, material business units and a significant impact on a material business unit's risk profile, and setting out criteria for identifying staff members or categories of staff whose professional activities have an impact on the institution's risk profile that is comparably as material as that of staff members or categories of staff referred to in Article 92(3) of that Directive.
Law	◆ "Loi du 5 Avril 1993 relative au secteur financier", as amended by the law of May 20th 2021 (hereafter "the **LFS**"), and transposing the Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending CRD IV (hereafter, "CRD V")into national law.
EBA Guidelines	◆ The Final report on Guidelines on sound remuneration policies under Directive 2013/36/EU, EBA/GL/2021/04, issued by the European Banking Authority on 2 July 2021.
CSSF	◆ CSSF circular 10/437, on sound remuneration policies. ◆ CSSF circular 15/622 on the procedure of notification of a higher 1:1 ratio as defined under article 38-6, point g) of the LSF. ◆ CSSF circular 14/585, with regards to ensuring that remuneration policies and practices are aligned with conflict of interest and conduct of business obligations.

Schedule II: Managing Performance – HSBC Human Resources Global procedure

Policy

The objective of this procedure is to ensure a globally consistent approach for managing the performance process and year-end assessment, supported by consistent governance and controls.

The requirements set out in this procedure must be followed to ensure:

- We set clear performance expectations and standards with employees.
- We evaluate and assess performance using a consistent set of performance assessment descriptors.
- We comply with applicable laws and regulations.

Risk Type

Primary: People
Secondary: Regulatory Compliance

Purpose

Application

Who This Applies To

This procedure applies to all employees across the HSBC Group except Contingent workers and Service Providers, who are not in scope of this procedure.

Permissible Variations

Any variations to the implementation of this procedure, or areas which are unable to comply with any specific provisions in this procedure should be highlighted to the global procedure owner (Group Head of Compensation – 'Procedure Owner and Procedure Champion') setting out the background and rationale for any variations/where compliance is not possible. The global procedure owner will, upon consideration of all matters, advise whether any variations are permissible.

Definitions

- HSBC Group:

  The requirements and controls set out in this procedure cover the HSBC Group defined as HSBC Holdings plc (the Company) and its subsidiaries.

- Pay:

  Pay References to pay comprises Fixed Pay (FP) and Variable Pay (VP). FP comprises base salary, fixed pay allowances and other cash allowances in accordance with local market practice. VP includes all performance related pay including payments made under the Wealth and Personal Banking (WPB) performance framework, commission plans, carried interest plans and profit share (as applicable in specific markets and defined as VP).

- Performance Process:

  Performance Managers assess performance against goals, expectations, and demonstration of the values-aligned behaviours. Individual performance is assessed as Outstanding, Performing or Off-Track, supported by a behaviour gateway. This is a Yes/No confirmation by managers that a team member's conduct meets the appropriate expectations and that they have demonstrated the minimum standards of behaviour aligned to HSBC's values.

Key Procedural Requirements

Overview

This procedure outlines our approach to managing and supporting the performance of our employees. Performance management is a continuous process throughout the year. It is an on-going dialogue between an employee, their manager, peers, and stakeholders.

Key activities include:

1. Defining what is expected of employees, via goals with clear measures, which are specific to the individual/role and dynamic as priorities change.
2. Supporting employees with feedback and regular conversations addressing 'how are they doing' and 'how can they improve?'
3. Carrying out a simple, transparent, and balanced year-end wrap up, where employees understand 'what does it mean for them?'.

4. Recognising where there are occasions when performance does not meet expectations and taking action to improve performance. This may be through open discussions on how to improve performance and there may be a need to initiate and follow a formal process to improve performance.

Roles and responsibilities

Group Remuneration Committee

- Review and approve the principles, parameters, and governance of the Group's remuneration framework as applicable to the Group's workforce, with input from subsidiary board committees as necessary, including the approach to assessing performance.

Performance and Reward

- Design, communicate and provide guidance on approach to performance management to all employees.
- P&R to ensure there is a consistent approach to performance management implemented across the Group.
- Review and monitor system readiness to support the annual performance and pay review process. (SuccessFactors Performance Management and Compensation).
- Review of outcomes in line with our reward principles and the information outlined in this procedure (including the linked articles under 'Guidance').

Functional Managers (FMs)

- Should work with employees to set goals/targets that are suitable for the role and guided by local rules/regulations for that role. This includes compliance with Volcker rules, where applicable. Refer to the procedure for further guidance.
- FMs should complete the year-end performance assessment for their direct reports prior to making any recommendations for FP and VP. This includes assessment of the behaviour gateway and recording the overall performance assessment in HRDirect.
- Should carry out a performance review and assessment in line with guidelines circulated by HR, taking into account the following:
    1. Any Personal Conduct Case (PCC) outcomes when assessing performance, in line with the PCC framework.
    2. Are encouraged to participate in 'performance standards checks' to enable performance assessments that are fair and free from bias.
    3. Discuss performance related decisions with the entity manager (where different from the FM).
    4. Communicate outcomes in line with specified Group timelines.
- Where performance has fallen short of expectations, FMs should communicate any emerging issues to the employee to support their performance improvement. FMs should discuss with the employee to gain their perspective, through the regular performance conversations during the year, and not wait until the annual performance and pay review process to discuss issues for the first time.

Entity Managers (EM)

- Should engage with FM to align on performance assessment recommendations, challenge where appropriate (considering guidance provided to them by HR) and agree final performance assessment outcomes within Group specified timelines.

All employees

- Should have goals agreed with their FMs. Guidance for setting goals is outlined in Global: Goal Setting Guide (service-now.com)
- Should seek feedback regularly throughout the year, from a wide range of stakeholders, to help them reflect on their performance and understand areas of strength and opportunities for development.

Minimum control requirements

Setting goals

- All employees and their FMs must work together to set goals. Goals should be revisited regularly, tracked, and updated when required.
- The mandatory global risk and compliance goal (GMRG) is applicable to all eligible employees and P&R must ensure that GMRG has been included in their goals.
- All General Managers and Country CEOs have a risk and compliance goal to 'Demonstrate and evidence effective management of enterprise risk, regulatory compliance and financial crime risk responsibilities.

Performance cycle

- FMs must engage with their direct reports through regular performance conversations during the year including to provide feedback and review of goals.

- Where performance is not in line with expectations, FMs should promptly provide feedback and discuss with the employee to gain their perspective. FMs must complete the year-end performance assessment for their direct reports prior to making any pay recommendations for them. This includes assessment of the behaviour gateway and recording the overall performance assessment in HRDirect.

- If the employee does not pass the behaviour gateway (i.e., employee's conduct does not meet expectations, or they have not demonstrated HSBC's values-aligned behaviours), the performance assessment outcome must be 'Off-track.' All employees will be assessed against the behaviour gateway. There may be exceptions and country variations to the above based on legal/regulatory requirements. In such cases, dispensations must be centrally agreed with Group P&R and documented.

- FMs must consider any PCC outcomes when assessing performance in line with the PCC framework.

- Any changes to performance assessments must follow the governance outlined in the manager guidance to year-end assessment.

Improving performance

- Subject to local regulations and labour or collective bargaining agreements, FMs must ensure that they follow the global process for improving performance aligned to the global principles.

Information security

- Performance documents and performance assessment outcomes are designated restricted as per the 'Information Security classifications' and all employees must take action to protect this data from inappropriate or unauthorised use.

Guidance

There are several governing policies underpinning this procedure:

- People Risk Policies

- The Regulatory Compliance elements of this policy are driven by the Global Risk FIM Regulatory Compliance Conflicts of Interest.

In addition, there are several supporting documents:

- Procedures
    - Functional and Entity Management Mandatory Procedure
    - Global Compliance FIM Volcker Rule Procedure
- Frameworks
    - Personal Conduct Cases (PCC) Framework
- Guidance
    - Goal Setting Guide.
    - Performance assessment descriptions.

Schedule III: Managing Pay – HSBC Human Resources Global procedure

Policy

The objective of this procedure is to ensure a globally consistent approach to making individual pay decisions, supported by consistent governance for approvals and controls, both within the annual performance and pay review process and outside of it (referred to as 'off-cycle').

The requirements set out in this procedure must be followed to ensure:

- We comply with applicable laws and regulations.
- We deliver on our reward principles as approved by the Group Remuneration Committee (Group RemCo) and amended from time to time.

Risk Type

Primary: People
Secondary: Regulatory Compliance

Purpose

Application

<u>Who This Applies To</u>

This procedure applies to all employees across the HSBC Group (Group) except Contingent workers and Service Providers, who are not in scope of this procedure.

This Procedure impacts all impacted Businesses/Functions.

<u>Permissible Variations</u>

Any variations to the implementation of this procedure, or areas which are unable to comply with any specific provisions in this procedure should be highlighted to the global procedure owner (Group Head of Compensation – Procedure Owner and Procedure Champion) setting out the background and rationale for any variations/where compliance is not possible. The global procedure owner will, upon consideration of all matters advise whether any variations are permissible.

<u>Definitions</u>

- HSBC Group:

  The requirements and controls set out in this procedure cover the HSBC Group defined as HSBC Holdings plc (the Company) and its subsidiaries.

- Pay:

  References to pay comprise Fixed Pay (FP) and Variable Pay (VP). FP comprises base salary, fixed pay allowances and other cash allowances in accordance with local market practice. VP includes all performance related pay including payments made under the Wealth and Personal Banking (WPB) performance framework, commission plans, carried interest plans and profit share (as applicable in specific markets and defined as VP).

<u>Key Procedural Requirements</u>

<u>Overview</u>

- Pay related matters for the Group have been delegated by the Board of the Company to the Group RemCo and are addressed under the Group RemCo Terms of Reference (ToR). This includes:

  1. Reviewing and approving the principles, parameters, and governance of the Group's remuneration framework as applicable to Group employees;
  2. Reviewing and approving the remuneration of the Group Chairman, executive Directors, and members of the Group Executive Committee (GEC);
  3. Satisfying itself that remuneration practices comply with the regulatory and other legislative requirements that the Group is subject to; and
  4. Satisfying itself that remuneration framework is in line with the risk appetite, purpose, strategy and values, and long-term interests of the Group and its stakeholders, and is free from any form of bias.

- In certain circumstances, Group RemCo may delegate the authority to approve certain decisions on its behalf to the Group Head of Performance, Reward and Employee Relations and the Group Company Secretary and Chief Governance Officer. This is addressed under the Group Remuneration Committee – Delegated Mandates of Authority.

- Pay decisions can be made during the annual performance and pay review process or outside of this. Further details relating to the roles and responsibilities and minimum control requirements under both scenarios are set out below.

Annual performance and pay review decisions

- This section covers the governance on fixed and variable pay decisions made in the annual performance and pay review process. The performance aspects of this process are addressed under the managing performance procedure.

Roles and responsibilities

Group RemCo:

- Sets overall parameters for the annual performance and pay review process based on our reward principles.

Performance and Reward (P&R):

- Operate in line with Group RemCo's ToR and Group's subsidiary board committees' ToR for pay decisions.

- Preparation for pay review
    1. Review and monitor system readiness (SuccessFactors Performance Management and Compensation) to support the annual performance and pay review process.
    2. Provide guidance to Functional Managers (FMs) /Entity Managers (EMs) based on the parameters set by Group RemCo and GEC.

- Operating pay review
    1. Provide available data (e.g., via People Insights) to support FMs with pay recommendations, e.g., spend reporting.
    2. Review pay outcomes in line with our reward principles and the information outlined in this procedure.
    3. Conduct quality assurance of VP allocations and differentiation.
    4. Apply deferral arrangements that have been approved by Group RemCo to VP outcomes.
    5. Ensure that the Group's remuneration arrangements and disclosures comply with regulatory requirements.
    6. Prepare pay review reports for sharing with HR, Country/Regional, Global Business (GB)/Global Function (GF)/Digital Business Services (DBS) heads and Entity CEOs to facilitate the senior management review of pay outcomes (further information is provided under the section titled 'Country/Regional, GB/GF/DBS heads and Entity CEOs').

All FMs:

- Follow HR and business pay review guidelines within the Group specified timelines and in line with communicated funding guidance.

- Follow guidance provided by P&R to ensure pay outcomes are free from bias (based on available diversity data). The guidance itself is based on the pay equity control as outlined in the People Management Policy.

- Apply good judgement to consider all relevant factors and make decisions consistently across the team.

- In applying the above, the FM is responsible for undertaking the following steps:
    1. Completion of the year-end performance assessment for colleagues who report to them (direct reports) via HRDirect.
    2. Making FP and VP recommendations within HRDirect.
    3. Engaging with the EM (where different from the FM) to discuss year-end performance outcomes and pay recommendations.
    4. Communicating pay outcomes for FP, VP and Total Compensation (TC) in line with specified Group timelines.

All EMs:

- Discuss pay recommendations with the FM (where different from the EM) and challenge where appropriate (based on guidance provided by HR where applicable) within Group specified timelines.

Country/Regional, GB/GF/DBS heads and Entity CEOs:

- Undertake review of aggregate pay outcomes at a Country/Regional/Global level as facilitated by HR. At a minimum this must include a review by the relevant GEC member.

- The review will be facilitated by an executive spend report provided by P&R and includes a summary of pay outcomes and key trends for all eligible employees within their functional/entity hierarchy (as applicable) against guidance provided by HR/senior management.

- The outcomes of the review are captured via the senior management review template and completed templates are retained by P&R for their records.

Minimum control requirements

Performance assessments

- FMs must complete the year-end performance assessment for their direct reports in HRDirect prior to making any pay recommendations for them. Further information can be found in the managing performance procedure.

Variable pay recommendations

- P&R must ensure that colleagues who are eligible for VP at the pay review eligibility date (30 September of the relevant performance year) are reflected via the Reward Form in HRDirect. In addition, they must undertake a review of any changes to VP eligibility prior to the payment of any VP award.

VP eligibility and recommendations

Colleagues are not eligible for VP if they fall into one of the following scenarios:

1. If the colleague has given or received formal notice of termination of employment at the time of payment of any VP award.
2. If the colleague does not pass the behaviour gateway (i.e., colleague's conduct doesn't meet expectations).
3. New hires who join on or after 1 October (noting that some new hires can be VP eligible if agreed).

- There may be exceptions and country variations to the above based on legal/regulatory requirements or individual agreements as approved under the Compensation Approval Framework which will be reflected in the Reward Form in HRDirect.

- FMs should ensure that there is clear differentiation of VP recommendations reflecting individual performance as well as values aligned behaviours based on HR guidance.

Conduct

- Pay outcomes by FMs should reflect conduct, both positive and negative in adherence with the Code of Conduct.

- In addition, FMs must also consider any Personal Conduct Case (PCC) outcomes when making pay recommendations in line with the PCC framework.

VP recommendations and deferrals

- The Global Heads of GB/GF/DBS, supported by the relevant P&R team must ensure that VP recommendations are within approved funding for the relevant area.

- P&R is responsible for ensuring that the correct deferrals have been applied per the approved deferral arrangements for the Group and for Material Risk Takers (MRTs).

Fixed pay recommendations

- FMs should review FP on an annual basis as part of the annual performance and pay review process.

- FMs must check that colleagues are eligible for a FP increase via the Reward Form in HRDirect. Colleagues are not eligible for a FP increase if they fall into one of the following scenarios:

    - If the colleague has given or received formal notice of termination of employment.
    - If the colleague does not pass the behaviour gateway
    - New hires who join on or after 1 October.

- There may be exceptions and country variations to the above based on legal/regulatory requirements which will be reflected in the Reward Form in HRDirect.

- When reviewing FP, FMs should check the following:

1. Fixed Pay Ranges (FPRs) where applicable for GCB4-8s: an employee's position in the FPR is used to inform the recommended guideline fixed pay in the pay review system to provide support when making fixed pay recommendations. As FPRs are informed by external market benchmark data and internal pay data, no market data will be shown.
2. Market positioning: when comparing employees to the external market, consideration should be given to the scope of the role and to the individual factors of skills and experience.

3. Internal relativity: when comparing employees to peers or to the FPR where applicable for GCB4-8s, consideration should be given to the grade, scope of role, skills, and experience.
4. Budget and spend guidance as provided to FMs by senior management.

FMs must follow guidance provided by P&R to ensure pay outcomes are free from bias (based on available diversity data). The guidance itself is based on the pay equity control as outlined in the People Management Policy.

Compliance with regulatory requirements (these requirements also apply to off-cycle pay decisions)

- P&R must ensure obligations are met in relation to the completeness, accuracy, quality, and timeliness of external submissions to regulators on an ongoing basis.
- P&R must ensure that all MRTs as defined by the Prudential Regulation Authority (PRA)/Financial Conduct Authority (FCA) Remuneration Rules, and any other categories or regulated staff as required by local laws in the jurisdictions HSBC operates are appropriately identified and that remuneration is delivered in line with regulatory requirements.
- P&R must ensure that any new legislative or regulatory developments relating to remuneration are implemented in a timely manner as applicable to the Group.

Deferral requirements

- P&R must ensure that deferrals have been applied per the approved deferral arrangements for the Group and for MRTs.

Off-cycle pay decisions

- Off-cycle pay decisions comprise all employee pay related decisions made outside of the annual performance and pay review process. This includes scenarios such as new hires, internal role changes, exits, global mobility and retention awards.

Roles and responsibilities

Group RemCo:

Reviews and approves the following in line with the Group RemCo ToR:

- All proposals with a total cost greater than USD 3 million (where the total cost is calculated by adding together the total compensation and any additional costs associated with the proposal as defined in the Compensation Approval Framework). This includes new hire packages, FP changes, international assignment terms, exceptional payments, annual total compensation, and severance packages for any Group employee.
- Proposals for executive Directors and members of the Group Executive Committee.
- All malus and clawback proposals. Retention awards granted to Group MRTs.

P&R:

- Provide guidance to FMs/EMs to help frame, size and structure proposals. This includes advising on pay practices which comply with legislative and regulatory requirements including but not limited to new hire packages (including the provision of buyouts/replacement awards) and exit packages (including severance).
- Provide approval on proposals (where applicable) as outlined in the Compensation Approval Framework.
- Operate in line with the Group's subsidiary board committee's ToR for pay decisions.

All FMs:

- Follow HR and business guidance.
- Engage with the EM (where different from the FM) to discuss any pay decisions before seeking approval for any pay changes.
- Seek approval for all pay changes proposed for direct reports. No changes can be communicated to direct reports until all approvals are in place.
- Enter the proposal into the relevant approval system.

The FM cannot make/approve changes to their own pay or approve the pay of their direct reports outside of the annual performance and pay review process.

All EMs:

- To discuss pay decisions with the FM (where different from the EM) and challenge where appropriate (considering guidance provided to them by HR where applicable).

Minimum control requirements

Proposing pay changes

- FMs are responsible for proposing pay changes for their direct reports.
- The FM must consider whether any off-cycle FP increases are appropriate in light of any PCCs in alignment with the PCC framework.

Seeking approval for pay changes

- The FM is responsible for obtaining the correct approvals as detailed in the Compensation Approval Framework.
- Approvers must be one or two levels up from the FM of the employee submitting the proposal i.e., FM+1 or FM+1 and FM+2.
- Compensation Approval Framework outlines which proposals require approval from P&R. Some scenarios require approval from the P&R team and Group Remco Further information is outlined in the Compensation Approval Framework.

Communicating approval

- The FM must ensure all relevant approvals (including EM engagement) are in place prior to any decisions being communicated.

Variable pay plan design and operation

Designing new or amending existing VP plans (including recognition plans):

- All VP plans require approval by Group RemCo whether they are operated at the Group level or business specific level (including new or amended plans).
- This includes the implementation of or adjustments to, any existing VP Plans (Plans), which include profit share plans and business-specific incentive arrangements. In the latter case, this must also be endorsed by the respective GB head prior to Group RemCo approval being sought.
- No payments can be made to an employee outside of any approved VP plans.
- When proposing a new plan or amending an existing plan, the relevant business team must engage with the P&R team as part of the plan design who in turn will review the proposed VP plan to ensure it adheres to Group reward principles.
- In advising the proposing team, P&R must also ensure, subject to legal and regulatory requirements, that individual plan payments are:
    1. Not formulaically linked to quantitative financial targets.
    2. Linked to the individual's overall performance assessment.
    3. Subject to malus, clawback or other adjustments related to conduct or behaviour.
    4. Not rewarding or incentivising any prohibited proprietary trading, or desks designated under Volcker.

Guidance:

There are a number of governing policies underpinning this procedure:

- People Risk Policies (including the Employment Practices and Relations Policy)
- The Regulatory Compliance elements of this policy are driven by the Global Risk FIM Regulatory Compliance Conflicts of Interest.

In addition, there are several supporting documents:

- Overview documents and HRDirect policies
    - HSBC remuneration practices and governance
    - Deferred Reward (Malus policy and Clawback policy) (including share plan rules)
    - Deferral policy
    - Material Risk Taker (MRT) Policy and Employee guide
    - MIFIDPRU and AIFM/UCITS Material Risk Takers (MRTs Policy and Employee Guide)
    - Performance management global policy
- Procedures
    - Functional and Entity Management Mandatory Procedure

- Global Compliance FIM Volcker Rule Procedure

- Frameworks
  - Compensation Approval Framework
  - Personal Conduct Cases (PCC) Framework
- Guidance
  - Manager guide to the annual pay review
  - Employee guide to the annual pay review
  - Fixed Pay Guidance
  - Promotions Framework (Guidance)
  - Target variable pay
  - At Our Best Recognition scheme
  - Performance assessment descriptions

Schedule IV: HSBC Europe sustainability risks

Integration of sustainability risks in the remuneration policy and practices of HSBC Continental Europe

The Remuneration Policy is designed to provide a framework for sound and responsible remuneration practices. In particular, it aims to avoid conflicts of interest, protect client interests and discourage excessive risk-taking.

This Appendix is drafted in accordance with Articles 5 and 12 of the SFDR of December 2019 providing for the integration of sustainability risks into remuneration policy and practices, sustainability risk being defined as an environmental, social or governance event or situation that may have a substantial negative impact, real or potential, on the value of the company.

In terms of sustainability, each business line, function, team and individuals in the organisation contributes to the implementation of the global strategy, and thus plays a part in achieving the objectives of HSBC Continental Europe in this respect.

1. Governance

Several bodies at HBCE are directly involved in the management of sustainability risks, particular attention being paid to risks relating to climate and environmental change.

Chief among these bodies, HBCE's Board of Directors is responsible for determining strategic policy directions, notably those relating to the climate and environmental transition, and supervising and controlling their implementation by the company's General Management. HBCE's Risk Committee is responsible for monitoring and informing the Board of Directors of all potential risks, particularly climate and environmental risks.

At the management level, two specific committees were introduced in 2022, the ESG Steering Committee and the ESG Risk Oversight Forum. The first one has been introduced to ensure deliverable of the remediation plan linked to environmental and climate risks, following a thematic review from ECB, the second one aims to reinforce the governance and supervision of risks related to environmental and climate challenges.

The Board of Directors, through its Remuneration Committee, approves the Remuneration Policy and its implementation, which includes qualitative and/or quantitative objectives, as well as sustainability indicators defined at different levels of the organisation.

2. Integrating sustainability objectives for employees

At Group level, the annual incentive scorecards of the executive Directors and Group Executives include outcome-based environment measures and objectives linked to customers, employee engagement, diversity and ethnicity, and risk. Enhancing the identification and management of climate risk is also part of scorecards for Group Heads of Businesses and Regions, the Group Chief Risk and Compliance Officer and Group Head of Internal Audit. Group uses different measures for long-term and annual incentives to avoid duplication and overlap.

Climate and sustainable finance measures are included in the long-term incentive (LTI) scorecard of Executive Directors (disclosed in HSBC Holdings plc Annual Report and Accounts). The performance against these targets will be assessed at the end of the three-year performance period.

Since 2020, Group has included two environment measures in long-term incentive awards - carbon reduction in its own operations against the 2019 baseline and sustainable finance and investment aligned to its 2030 commitments.

In 2023, Group has cascaded sustainability goals globally to responsible colleagues across all Global Businesses and Function. Group intends to continue to evolve this approach for 2024, cascading further into the organisation over several years to cover a greater proportion of employees with relevant and good quality measures to drive the right focus and behaviour.

At HBCE level, in 2023, specific sustainability objectives (qualitative and/or quantitative) were attributed cross-functionally or specifically to different levels of the organisation, in the business lines and functions, and, where relevant, implemented more precisely for the teams and employees of HSBC Continental Europe.

As stipulated in Section 2.2.2.2 of the Remuneration Policy, the achievement of these objectives set at the start of the year in individual balanced scorecards is assessed, as is the case for the other objectives, throughout the year via routine discussions and feedback between managers and their employees and, more formally, at the end of the year during annual performance assessments. This documented assessment plays a key role in determining the variable pay attributed to the employee.

In addition, all employees have a mandatory global objective on Risk and Compliance, notably covering compliance with laws, directives, regulations, policies and procedures applying to the role of each employee. If these objectives are not met, the variable remuneration of the employees concerned may be reduced in accordance with the Remuneration Policy.

More generally, and as described in the Remuneration Policy, on the basis of controls, the Risk and Compliance functions may identify any risk-related shortcomings, including those linked to sustainability. These shortcomings may lead to negative impacts on the variable remuneration awarded in respect of a financial year, on deferred or not-yet-vested variable remuneration in respect of previous financial years (malus), and on already-vested variable remuneration (clawback).

Inversely, the variable remuneration of an employee having demonstrated particular initiative (for example, coordinating webinars on climate risk or biodiversity, or developing and overseeing initiatives to reduce the carbon footprint) may be adjusted positively.

2.1 Cross-functional objectives

Regarding the company's carbon neutrality objectives, the decision was made in 2023 to strengthen the appropriation of HSBC Continental Europe employees of climate issues. To that end, each employee was assigned with:

- **a mandatory training course on the climate** to be completed within a set deadline. Each employee was asked to complete **at least two** of the 11 modules detailed below (four for GCB0-3 employees in Risk functions) **in the 90 days following the assignment of the course:**
  - Introduction to Climate Risk
  - Climate Risk at HSBC
  - Climate Risk Data
  - Climate Risk Regulatory and Reporting Landscape
  - Climate Scenario Analysis
  - GBM & CMB Climate Risk
  - WPB Climate Risk
  - Fundamentals of Biodiversity Footprint – ILT
  - Biodiversity Footprint & Reporting for Financial Institutions
  - HSBC's Approach to Sustainability
  - Creating Commercial Opportunities
- **in parallel, an objective linked to the proper completion of this training course was included in the 2023 objectives form of each HBCE employee.**

In addition, regarding the social aspects of ESG criteria, each manager in Europe was assigned a D&I objective aimed at identifying and proactively implementing one or two initiatives serving to improve diversity and inclusion in their team.

For example, this objective may cover the diversity of applications for a position to be filled, the completeness of training on inclusion, the improvement of the inclusion index, the participation to D&I projects…

Lastly, for HBCE France only, the profit-sharing agreement signed in 2023 included for the first time an environmental dimension through three "climate" objectives, namely the reduction of energy consumption, water consumption and paper purchases.

The aim is to recognise and promote the actions of our employees in favour of the virtuous use of our resources, the initiative being fully consistent with our goal of carbon neutrality. Each of the three objectives is accompanied by a specific profit-sharing financial pool implemented on a progressive basis according to the achievement level of each objective:

- Ambitious: -10%
- Engaging: -8%
- Positive: -6

2.2 2023 objectives of the CEO and Heads of Business Lines / Business Functions

Several of the objectives of the members of the General Management are part of HSBC's objective on carbon neutrality. They are measured using KPIs and KRIs implemented gradually since 2022.

CEO HBEU & CEO HBCE

Scorecard measures	Objective	Weighting (%)
TRANSITION TO NET ZERO		17,0%
Drive implementation of the Europe sustainability strategy and enhance management of climate risk through the target operating model	Execution in line with approved plan (including climate risk integrated as a key consideration in sustainability-related business decisions, in line with regulatory expectations)	5,0%
DBS ESG & Net Zero Objectives	Drive DBS ESG agenda and the net zero objectives for our own supply chain across HBCE.	4,0%
Sustainable finance and investment	Volume of sustainable finance & investment	4,0%
Financed emissions	% of financed emissions (for oil & gas and thermal coal sectors) covered by completed assessments of client transition plans	4,0%

Deputy CEO HBCE

Scorecard measures	Objective
TRANSITION TO NET ZERO	
Climate change (WIP)	Ensure financial implications of financed emissions targets and $750bn/1tn target are embedded into the FRP and Business MI reporting for ongoing performance measurement MI
Maintain our progress in providing sustainable financing to deliver 30% of the Group's SF revenue by 2025 and delivering against our Carbon Net Zero ambition (WIP)	Deploy the approved sustainable finance strategy for Europe and deliver against our Carbon Net Zero ambition
	Support the Group's stated transition to net zero ambitions (as part of the contribution towards the $750bn-$1tn Sustainable Finance Commitment in 2022).

Head of Global Banking

Scorecard measures	Objective
TRANSITION TO NET ZERO	
Drive implementation of the Continental Europe sustainability strategy through 1. Enhancing HSBC's leadership psotion in sustainable Finance	Volume of sustainable finance and investment
2. Supporting the delivery ofHSBC financed emisisons targets	% of financed emissions (for oil & gas and thermal coal sectors) covered by completed assessments of client transition plans
3. Enhancing the management of climate risk	

Head of Market Securities & Services

Scorecard measures	Objective
Sustainability	
Embedding ESG into day to day & strategic activities	•Embed sustainability in strategy, townhalls & team meetings •Cascade down further objectives
Support ESG upskilling & staff engagement	Promote & encourage completion of Sustainability training
Net Zero – supporting ESG staff initiatives	Ensure awareness, connectivity and participation to MSS ambitions to reduce Carbon footprint in own operations
Risk Management – manage ESG financial risk	Embed Climate Risk Framework including measurement of financial risk/exposure & implementation of daily limit framework Where necessary, inform or escalate any Climate related exposures of concern. Contribute to development of approach Manage to agreed Climate Risk Appetite statements (when available)

Head of Commercial Banking

Scorecard measures	Objective
TRANSITION TO NET ZERO	
Accelerate sustainable future for the planet	Increase Sustainable Finance business
Accelerate sustainable future for the planet	Increase % participation of corporate RMs with Sustainabilty transactions
Transition Plan Assessment (TPA)	Reduce financed emission of portfolio, % completion vs. plan
Europe sustainability strategy	Drive implementation of the Europe sustainability strategy and enhance management of climate risk through the target operating modelin line with approved plan (including climate risk integrated as a key consideration in sustainability-related business decisions, in line with regulatory expectations)
Financed Emissions	% of financed emissions (for oil & gas, power & utility, and coal sectors) covered by completed assessments of client transition plans

Head of Insurance

Scorecard measures	Objective
Sustainability	
Sustainable Investments AUMs ($bn)	Performance at / above FRP
Continue to incorporate sustainability goals into product design and operations	Execution in line with strategy
Enhance the identification and management of climate risk	Execution in accordance with the climate and greenwashing risks integration plan

Head of Asset Management

Scorecard measures		Objective
Sustainability		
AM Sustainability Strategy	Lead the local governance implementation and provide insights to the global instances (SO& RI) & to HBCE re client expectations and regulatory requirements. Local team education & engagement on sustainability.	Development & deployement of local forum RI participation and AMFR team engagement + Inclusion of Sustainability in procedures and governance Align AMFR policies (and potentially REIM if and when applicable) to any new/revised AM & group policy(ies) in accordance with local regulation, Deliver on LEC & SFDR disclosures at AMFR level and provide support to the bank and INFR on behalf of AM Management & constant development of local greenwashing risk & controls Develop metrics to include (RAS) number of active beach relating to sustainability restrictions Organize Local team trainings & educational forums on sustainability

Head of Risks

Scorecard measures	Objective
Sustainibility	
Implementation of the ECB Risk owned actions (related to Climate remediation plan)	Completion of actions included in the Climate remdiation plan
Deliver the 2023 outcomes of the climate risk approach & programme within HBCE	Effective delivery
Mandatory training on climate for all risk function members	For GCB0-3 in HBCE Risk, 4 of 11 training will be mandatory .

Head of Digital Business Services

Scorecard measures	Objective
TRANSITION TO NET ZERO	
DBS ESG & Net Zero Objectives	Drive DBS ESG agenda and the net zero objectives for our own supply chain across HBCE.

Head of Audit

Scorecard measures	Objective
Support the Group's climate ambition	
Support the idnetification and management of Climate Risk	Integrate Climate risk as a key consideration in relevant audit activity

2.3 Few examples of the 2023 objectives assigned to team/employees in the business lines/functions

Asset Management

In 2023, specific (qualitative or quantitative) sustainability objectives were assigned to the teams and employees of HSBC Global Asset Management (France) where relevant.

Management teams: quantitative and qualitative objectives related to the implementation of rules on the integration of ESG criteria into the assets they manage.

Sales teams: specific objectives aimed at sharing and promoting ESG policies, expertise and responsible investment solutions and at supporting clients as part of the new SFDR environment.

Products team: objectives on aligning products with regulations and sustainable labels.

Marketing teams: watch objectives on the compliance of communication on responsible investment and the integration of ESG criteria.

The Risk function: individual objectives on strengthening expertise in sustainability with a view to engaging initiatives and the thorough assessment of sustainability risks in general and the environment in particular.

The Compliance function and the Legal function: objectives on legal and regulatory support on all ESG matters in order to assist the company's various teams in interpreting and implementing the latest legislative and regulatory texts.

Market and Securities Services (MSS)

At MSS, the objective assigned to the teams/employees is to contribute to the business line's strategy on sustainability. This objective is implemented differently according to the job position held.

- Complete the relevant training courses,
- Increase the volume of sustainable finance & investment, such as green bonds,
- Reduce the % of financed emissions (for sectors including oil & gas, power & utility, thermal coal, cement, iron, steel, aluminium, automotive and aviation),
- Drive the completion of assessments of client transition plans where appropriate,
- Develop tools/framework to measure financial risk,
- Organise specific ESG/Sustainability investor round tables,
- Support client sustainability events, client education/training,
- Embed sustainability in strategy, town halls & team meetings,
- Support upskilling and staff engagement on sustainability,
- Ensure understanding of greenwashing & mitigating risks,
- Support staff initiatives on Net Zero,
- Ensure awareness, connectivity and contribution to MSS ambitions on reducing the carbon footprint of proprietary operations.

Insurance

- Integrate sustainability into each asset class of the company,
- Train and then contribute to the dissemination of sustainability knowledge and skills within HAV,
- Become the go-to contact on sustainable finance and sustainability topics in asset investment,
- Prepare and validated AMF Finance Durable certification,
- Coordinate the Sustainability Forum.

Commercial Banking (CMB)

- Develop sustainable trade finance revenue and assets,
- Complete sustainable trade finance training among all staff (including climate and environmental risks training),
- Integrate ESG aspects into client files reviews and credit recommendations,
- Increase the proportion of ESG transactions in the Corporate Real Estate Portfolio,
- Remain a wholesale subject matter expert relative to climate and environmental stress-testing methodologies.

Digital Business Services (DBS)

- Contribute to optimising energy consumption and drive technology asset modernisation,
- Execute a plan to reduce energy consumption,
- Transfer at least 5% of the current workload to a less carbon intensive environment.

Global Functions

- Support ESG reporting requirements, SG planning, forecasting and stress-testing exercises,
- Drive full engagement with Finance and the business to deliver on key ESG priorities,
- Support the businesses on potential sustainability risks and how best to mitigate and manage,
- Reinforce awareness on sustainable and climate risks (providing legal advice on sustainable finance and green products, participating in ESG training, forum, webinars and workshops, leading or supporting initiatives to reduce the carbon footprint),
- Build sustainability expertise in the team,
- Support the drafting of standards and guidance for key clauses to be included in regulatory or legal documentation,
- Ensure that policies critical to Net Zero (including the energy policy) and the deforestation policy are thoroughly implemented at HBCE,
- Support and commit to the remediation plan of ECB Climate requirements,
- Act as a Climate SME to help incorporate climate risk considerations in credit risk decisions,
- Support Business and Risk Portfolio Management Teams in the enhancement of Climate MI reporting.

3. Taking sustainability risks into account in risk-adjusted remuneration pools

The determination of the Group variable pay pool is a fully discretionary process informed by various financial and non-financial metrics, affordability, and the commercial requirement to remain competitive in the market. Performance against metrics in the Group Risk Appetite Statement ('RAS') and conduct framework are taken into consideration in setting the pool as part of the review of non-financial metrics, which includes the consideration of climate risks. There is no specific formulaic approach in weighting this review in determining the ultimate pool.

The overall variable remuneration pool determined every year is based on the achievement of objectives set at the start of the year. These now include specific objectives relating to our goal on carbon neutrality (see above) while taking into account present and future risks in sustainability, and notably in terms of the climate. These risks are embedded in a Risk Appetite Statement and Key Management Information document determining a risk appetite level and tolerance on five types of risk:

- Wholesale credit risk
- Retail credit risk
- Reputational risk
- Resilience risk
- Compliance risk

These types of risk correspond to the following risks identified by HSBC Continental Europe:

- **Climate:** HBCE considers that the physical impact of climate change and the transition to carbon neutrality may create financial risks for businesses, investors and the economy in general. These changes in HBCE's risk profile may be reflected in financial and non-financial risks including credit, regulatory compliance, reputation, resilience, and financial reporting. These risks could generate an increase in legal disputes and certain obligations.

- **Transition and physical risk on the exposure of HBCE**: HBCE's aim of helping to decarbonise the economy requires it to implement financing and investments for clients in sectors exposed to transition risk. HBCE may also assist clients in geographical regions that may be affected by physical risks. These physical and transition risks posed by HBCE clients must be considered as concomitant with other risk levers in that they may negatively impact HBCE through credit losses or losses on assets.

- **Risk relating to the carbon neutrality objective:** HBCE may be confronted by a risk of non-alignment if it fails to meet its carbon neutrality objective and the expectations of its shareholders or if it fails to balance its carbon neutrality objective with its business objectives. This situation may be reflected for HBCE in risks relating to strategy, reputation and financial reporting.

- **HBCE physical risk:** The physical impacts of climate change on the properties of HBCE (leased or owned) may generate major risks in terms of damage and business continuity. HBCE manages these risks with regard to its Group Risk Appetite Statement.

4. Climate related KPI/KRI

To evaluate these risks, and completion of associated objectives, HBCE implement a set of KPIs/KRI, that, subject to feasibility, cover HBCE as a whole or its Business Lines, Function Lines. Few exemples below:

HBCE

- Carbon emission in CO_2 tonnes
- Energy consumption in MWh
- Travel emission in CO_2 tonnes
- Waste in tonnes
- % of office waste recycled
- Water consumption in m3
- Paper purchased in tonnes

Wholesale

- Volume of sustainable Finance (USD billions)
- % of specific staff /frontline staff trained on climate topics
- % of frontline staff that have completed sustainable finance transactions

Market Securities Services

- Volume sustainable Finance and Investments (USD billions)
- Number of customers that have been proposed sustainable Finance solutions
- Number of users on Online climate training course

WPB (Malta)

- % of mortgage portfolio exposure “At risk” of a climate Event due to rise in sea level
- Additional no. of sustainable funds in the mutual fund shelf
- Publications on sustainable investing

Insurance

- % of share on sustainable investments in non-linked assets
- % staff trained
- % of staff with AMF climate certification

Risk

- % of wholesale loans/advances to customers in high transition risk sectors of total wholesale loans/advances
- % of RWAs consumed by high transition risk sectors
- % of high-risk sectors firms with a board policy or management plan to address climate
- Number of climate related incidents to HSBC premises

Schedule V: Additional HSBC policies in conjunction with the HSBC remuneration framework

- HSBC Deferred Cash Plan, as amended from time to time
- HSBC Share Plan, as amended from time to time
- HSBC Malus Policy, as amended from time to time
- HSBC Clawback Policy, as amended from time to time