

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

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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. (“PBLU” or “the Bank”). 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 5<sup>th</sup> of April 1993, as amended (“LSF”)<sup>1</sup>.

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 2<sup>nd</sup> July 2021<sup>2</sup> (“EBA Guidelines”).

Further regulatory requirements on remuneration matters, as followed by PBLU are outlined in Schedule III 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.

<sup>1</sup> 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.

<sup>2</sup> EBA/GL/2021/04

**Our remuneration strategy is delivered through HSBC’s reward package, consisting of five key elements:**

Key elements	Purpose
Fixed pay	<ul style="list-style-type: none"> <li>◆ Attract and retain employees by paying market competitive pay for the role, skills and experience required for the business.</li> <li>◆ This may include salary, fixed pay allowance, cash in lieu of pension and other cash allowances in accordance with local market practices.</li> <li>◆ These payments are fixed and do not vary with performance.</li> </ul>
Benefits	<ul style="list-style-type: none"> <li>◆ Ensure market competitiveness and provide benefits in accordance with local market practice.</li> <li>◆ This may include, but not limited to, the provision of pensions, medical insurance, life insurance, health assessment and relocation allowances.</li> </ul>
Annual incentive	<ul style="list-style-type: none"> <li>◆ Drive and reward performance based on annual financial and non-financial measures consistent with the medium – to long-term strategy, stakeholder interests and adherence to HSBC values.</li> <li>◆ Awards vary with performance achievement and we have the discretion to assess the extent to which performance has been achieved.</li> <li>◆ Awards can be in the form of cash and / or shares. For MRTs, a portion of the annual incentive award may be deferred and vest over a period of four years, five years or seven years. All deferred awards are subject to malus and share-based awards are subject to a retention period of up to one year after vesting.</li> <li>◆ Awards granted to employees identified as MRTs, are adapted across local business lines and regions to take local legal and regulatory requirements on remuneration matters as further highlighted throughout the Policy (e.g. clawback, retention and deferral period).</li> </ul>
Long-term incentive awards (“LTI”)	<ul style="list-style-type: none"> <li>◆ Incentivize sustainable long-term performance through the use of both pre- and post-grant performance measures.</li> <li>◆ Awards are subject to malus and clawback and we have the discretion to assess the extent to which performance has been achieved.</li> <li>◆ LTI eligibility is typically limited to senior members of staff. Awards are in shares and subject to a three-year, forward-looking performance period. At the end of the performance period, the awards that vest will be dependent on the outcome of the performance condition. The vesting is in five equal annual instalments with the first vesting occurring on the third anniversary of the grant date and the final vesting occurring on the seventh anniversary of the grant.</li> <li>◆ Notwithstanding specific provisions applicable to MRTs, under specific local requirements, LTI awards are subject to a retention period of up to one-year after vesting.</li> </ul>
Shareholding requirement	<ul style="list-style-type: none"> <li>◆ Align interests of senior management with shareholders' interests through a shareholding requirement during their employment at HSBC.</li> </ul>

# 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 Authorized Management, Senior Management, 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 Authorized Management, Senior Management, 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 Management. 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 compensation principles (part 1): promoting sound and effective risk management and supporting our business objectives

The HSBC remuneration framework is structured in a way to promote sound and effective risk management, through measures that do not induce excessive risk taking, that support our business and risk strategy, including ESG risk-related objectives, corporate culture and values and our long-term interests throughout the Group.

## Under our remuneration framework, remuneration decisions are made based on a combination of:

- ◆ The Group, global business and regional Risk Strategy teams, assess and report their respective Risk Appetite metrics on a regular basis to their local risk management committee. This process plays a key role in embedding effective risk management and the monitoring of risk throughout the Group;
- ◆ At the individual level, risk objectives are included in the performance scorecard of senior executives. Employees with specific risk management duties as defined by the HSBC Risk Management Framework (e.g. risk owners and control owners) receive mandatory objectives specific to their objectives. Additionally, all employees below the Group Executive Committee (“GEC”) also have a mandatory global risk objective in order to highlight the importance of managing risk and its consistent reinforcement;
- ◆ A behavioural rating is assigned to each employee, subject to local laws, bargaining agreements and regulations, which takes into account individual adherence to the Group’s values, policies and procedures. This behavioural rating is a factor used in the determination of variable pay for individuals;
- ◆ Individual performance; and
- ◆ Local market position and practice.

## Key features of our HSBC remuneration framework:

The key features of our remuneration framework that enable us to achieve alignment between risk, performance and reward are summarized below. Further details can be found in the HSBC Holdings plc *Annual Report and Accounts*:

<b>Scorecards</b>	<ul style="list-style-type: none"> <li>◆ Assessment of performance is based on clear and relevant financial and non-financial objectives (including sustainability/ESG measures and other elements of the overall Group strategy) set within a performance scorecard framework.</li> <li>◆ The overall scorecard outcome for the senior management is subject to a risk and compliance modifier.</li> </ul>
<b>Group variable pay calculation</b>	<ul style="list-style-type: none"> <li>◆ Fines and penalties are automatically included in the Committee’s definition of profit.</li> <li>◆ Performance against metrics in the Group RAS and conduct framework is taken into consideration.</li> <li>◆ We use a countercyclical funding methodology, bounded by a floor and a ceiling. This keeps pay broadly aligned with performance, while reducing excessive volatility, which could otherwise drive short-term decision making.</li> <li>◆ 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, which are then assessed and approved by local governance bodies, based on local requirements.</li> </ul>

<b>Deferral of variable pay</b>	<ul style="list-style-type: none"> <li>◆ Beyond local specificities on regulatory remuneration matters, to be taken into account at the level of local business lines and regions, a Group-wide deferral approach is applicable to all employees across the Group, where deferral is applied to annual incentive award above a certain level.</li> <li>◆ Deferral of variable pay into HSBC shares and / or other instruments to tie recipients to the future performance of the Group and business units.</li> </ul>
<b>Malus / adjustment policy</b>	<ul style="list-style-type: none"> <li>◆ Allows cancellation / reduction of unvested deferred variable pay awards. Longer deferral period for MRTs under the CRD V requirements increases the time period over which malus can be applied.</li> <li>◆ Ability to perform in-year variable pay adjustments and take other disciplinary actions under our Global Employee Recognition and Conduct Framework.</li> </ul>
<b>Clawback policy</b>	<ul style="list-style-type: none"> <li>◆ Subject to compliance with local labour laws, and local regulatory requirements on remuneration matters, clawback can be applied on up to 100% of the awards granted to MRTs, regardless of the method used for the payment, including deferral or retention arrangements, during at least the deferral and retention periods.</li> </ul>
<b>Sales incentives</b>	<ul style="list-style-type: none"> <li>◆ We generally do not operate commission-based sales plans.</li> </ul>

The principles outlined above are adjusted to consider local specificities on remuneration matters. Specific payout provisions of variable pay applicable to PBLU are highlighted under section “*PBLU specific Remuneration Rules*”, p.11 of the Policy.

#### **Embedded values in our remuneration structure to ensure alignment between risk and reward:**

Furthermore, the following programs help to embed values in our remuneration structure and ensure greater global consistency in our approach to achieve alignment between risk and reward:

<b>Behavioural rating for all employees</b>	<ul style="list-style-type: none"> <li>◆ Subject to compliance with local labour laws, a values-aligned behaviour rating for all employees ensures performance is assessed not only on what is achieved but also on how it is achieved. This contributes to the sustainability of our business.</li> </ul>
<b>Performance Management</b>	<ul style="list-style-type: none"> <li>◆ Performance objectives define what you need to achieve, how and by when. Creating performance objectives is a key part of Everyday Performance and Development, enabling employees and managers to agree actions and targets in line with business and role priorities. They should be updated throughout the year as priorities change.</li> <li>◆ Everyday Performance and Development involves frequent, holistic and meaningful conversations throughout the year between a manager and employee. They provide an opportunity to discuss progress, provide feedback and recognition, identify any support that may be needed and address any issues that could be affecting the employee’s sense of well-being.</li> </ul>
<b>Employee Recognition and Conduct framework</b>	<ul style="list-style-type: none"> <li>◆ The framework provides a set of guidelines designed to reward exceptional conduct and handle any conduct breaches consistently across the Group.</li> <li>◆ Rewarding positive conduct may take the form of use of our global recognition programme ‘At Our Best’, or via positive adjustments to performance and behaviour ratings and variable pay.</li> <li>◆ The framework also provides guidance on applying negative adjustments to performance and behaviour ratings and to variable pay, alongside disciplinary sanctions, where conduct breaches have been identified.</li> </ul>



## HSBC Group compensation principles (part 2): considering sound remuneration requirements

The table below sets out how HSBC Group's compensation principles and practices, overall align with sound remuneration requirements (“**SRR Principles**”) across various jurisdictions. Specific implementation provisions for PBLU’s under CRD V are highlighted in section “*PBLU specific Remuneration Rules*”, p.11 of the Policy.

SRR Principles	How we comply
<p><b>Principle 1:</b> Remuneration policy promotes sound and effective risk management, through measures that do not induce excessive risk taking</p>	<ul style="list-style-type: none"> <li>◆ Performance scorecards of GEC align with business objectives and risk objectives and are cascaded to global business lines and regions.</li> <li>◆ Risk and compliance are a critical part of the performance rating and variable pay assessment process.</li> <li>◆ Respective objectives are assessed against the risk profile of global business lines and regions.</li> <li>◆ 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.</li> </ul>
<p><b>Principle 2:</b> Remuneration policy supports business strategy, objectives, including ESG risk-related objectives, corporate culture and values, with regard to long-term interests of the Group.</p>	<ul style="list-style-type: none"> <li>◆ 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.</li> <li>◆ 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.</li> </ul>
<p><b>Principle 3:</b> Remuneration policy includes measures to avoid conflicts of interest</p>	<ul style="list-style-type: none"> <li>◆ 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.</li> <li>◆ 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.</li> <li>◆ 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.</li> <li>◆ The Committee is responsible for agreeing individual remuneration packages (including variable pay awards) for Group 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.</li> </ul>
<p><b>Principle 4:</b> Governance of the remuneration policies and</p>	<ul style="list-style-type: none"> <li>◆ All members of the Committee are independent non-executive Directors.</li> <li>◆ The Committee sets the principles, parameters and governance framework of the Group’s remuneration policy applicable to all Group employees.</li> </ul>

SRR Principles	How we comply
oversight of their implementation	<ul style="list-style-type: none"> <li>◆ The Committee periodically reviews the adequacy and effectiveness of the Group's remuneration policy.</li> <li>◆ 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.</li> <li>◆ 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.</li> <li>◆ 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.</li> </ul>
<p><b>Principle 5:</b> Employees in Control Functions are independent, have appropriate authority and are remunerated adequately and based on functional objectives</p>	<ul style="list-style-type: none"> <li>◆ Individuals in Control Functions have a direct reporting line through the functions rather than through the business to ensure conflicts of interest are avoided.</li> <li>◆ Control Functions are represented at the most senior levels within the Group, including on the GEC.</li> <li>◆ 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.</li> <li>◆ 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.</li> <li>◆ 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.</li> </ul>
<p><b>Principle 6:</b> Total variable remuneration does not limit the firm's ability to strengthen its capital base</p>	<ul style="list-style-type: none"> <li>◆ Group's variable pay pool is determined based on evaluation of financial performance and performance against risk metrics.</li> <li>◆ 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.</li> <li>◆ The Group's target policy is for the vast majority of post-tax profit to be allocated to capital and to shareholders.</li> <li>◆ 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.</li> <li>◆ 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,</li> </ul>

SRR Principles	How we comply
	<p>cancelled or paid back in appropriate circumstances including (but not limited to):</p> <ul style="list-style-type: none"> <li>• Individual or business unit conduct is considered detrimental;</li> <li>• Restatement, correction or amendment of any (i.e., Group or local) financial statements;</li> <li>• Past performance being materially worse than originally understood; and / or</li> <li>• Improper or inadequate risk management.</li> </ul>
<p><b>Principle 7:</b> Limitation and restructuring of variable remuneration and ban on variable remuneration for firms benefiting from exceptional government intervention</p>	<ul style="list-style-type: none"> <li>◆ In the event that the Group or any of its Group entities received exceptional government intervention it would apply this principle.</li> </ul>
<p><b>Principle 8:</b> Variable pay components or pools determined based on profits and adjustment for all types of current and future risks</p>	<ul style="list-style-type: none"> <li>◆ Group's variable pay pool is determined in the context of Group profitability.</li> <li>◆ 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.</li> <li>◆ The Committee exercises its judgement to ensure the variable pay pool reflects the overall performance of the Group including performance against qualitative risk objectives.</li> <li>◆ 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</li> <li>◆ 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.</li> </ul>
<p><b>Principle 9:</b> 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</p>	<ul style="list-style-type: none"> <li>◆ Group pension policies are reviewed to ensure they are in line with market practice and sustainable.</li> <li>◆ The Group policy is not to award any discretionary pension benefits.</li> </ul>
<p><b>Principle 10:</b> Employees undertake not to use personal investment strategies to undermine the risk alignment effects of remuneration arrangements</p>	<ul style="list-style-type: none"> <li>◆ 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.</li> </ul>

SRR Principles	How we comply
<p><b>Principle 11:</b> Variable remuneration is not paid through vehicles that facilitate non-compliance with the Remuneration Rules</p>	<ul style="list-style-type: none"> <li>◆ 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.</li> </ul>
<p><b>Principle 12:</b> Remuneration structure is consistent with regulatory remuneration principles across various jurisdictions</p>	<ul style="list-style-type: none"> <li>◆ 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.</li> <li>◆ 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.</li> <li>◆ 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.</li> <li>◆ The total variable pay awards for MRTs are structured as follows: <ul style="list-style-type: none"> <li>• 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.</li> <li>• The higher of any regulatory deferral requirement and the Group deferral requirement is applied for all variable pay awards.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul> </li> <li>◆ Variable pay awards may be adjusted downwards in circumstances including: <ul style="list-style-type: none"> <li>• Detrimental conduct, including conduct that brings HSBC into disrepute;</li> <li>• Involvement in events resulting in significant operational losses, or events that have caused or have the potential to cause significant harm to HSBC directly or any of its Group entities; and</li> </ul> </li> </ul>

SRR Principles	How we comply
	<ul style="list-style-type: none"> <li>• Non-compliance with the HSBC Values and other mandatory requirements or policies.</li> <li>◆ Malus can be applied to unvested deferred awards granted in prior years in circumstances including: <ul style="list-style-type: none"> <li>• Detrimental conduct, including conduct that brings the business into disrepute;</li> <li>• Past performance being materially worse than originally reported;</li> <li>• Restatement, correction or amendment of any financial statements; and</li> <li>• Improper or inadequate risk management. Variable pay awards will be subject to clawback, for a period of time covering at least the deferral and retention periods.</li> </ul> </li> <li>◆ Clawback can be applied to vested or paid awards granted in circumstances including: <ul style="list-style-type: none"> <li>• Participation in, or responsibility for, conduct that results in significant losses;</li> <li>• Failing to meet appropriate standards and propriety;</li> <li>• Reasonable evidence of misconduct or material error that would justify, or would have justified, summary termination of a contract of employment; and</li> <li>• A material failure of risk management suffered by HSBC or a business unit in the context of Group risk-management standards, policies and procedures.</li> </ul> </li> </ul>

# PBLU specific Remuneration Rules

The present section, sets out 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. Contexte & 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 SRR principles.
- ◆ 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

	<p>long-term incentives) differentiated by performance and adherence to HSBC values.</p> <ul style="list-style-type: none"> <li>◆ 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.</li> <li>◆ 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.</li> <li>◆ 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 III.</li> </ul>
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<b>Scope</b>	<ul style="list-style-type: none"> <li>◆ 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.</li> <li>◆ The Policy applies to all employees of PBLU, with specific provisions on variable remuneration applicable to MRTs (please refer to section 6 below).</li> <li>◆ For the sake of clarity, MRTs are 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<sup>3</sup> (all together "<b>MRT Regulation</b>") – see <i>Schedule I</i>.</li> </ul>
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## 2. Basis of Analysis

<b>Material Risk Takers</b>	<ul style="list-style-type: none"> <li>◆ 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.</li> <li>◆ 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.</li> <li>◆ 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.</li> <li>◆ 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,</li> </ul>
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<sup>3</sup> 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

	<p>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.</p> <ul style="list-style-type: none"> <li>◆ 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.</li> <li>◆</li> </ul>
<p><b>Proportionality Principle and application of the remuneration requirements at PBLU</b></p>	<ul style="list-style-type: none"> <li>◆ 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”.</li> <li>◆ 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.</li> <li>◆ 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: <ul style="list-style-type: none"> <li>● The size of the institution</li> <li>● The internal organization of the institution; and</li> <li>● The nature, scope and complexity of the institution’s activities.</li> </ul> </li> <li>◆ 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 (“<b>De Minimis MRT</b>”): <ul style="list-style-type: none"> <li>● Defer at least 40% to 60% of the total variable pay over a minimum of 4 to 5 years;</li> <li>● Pay at least 50% of the pay in shares or similar instruments (i.e., share like); and</li> </ul> </li> </ul>



- 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 those employees defined in Schedule I (i.e. 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 a bi-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.

	<ul style="list-style-type: none"> <li>◆ <b>Fixed pay</b> is defined as the total of cash and benefits in kind, which are as follows: <ul style="list-style-type: none"> <li>• Base salary paid for 12 or 13 months as appropriate and contractually applicable.</li> <li>• Banking Collective Agreement related payments and allowances.</li> <li>• Car Allowance or leasing (for certain grades).</li> </ul> </li> <li>◆ <b>Benefits</b> are provided in accordance with the local marketplace. Current benefits offered in Luxembourg include. <ul style="list-style-type: none"> <li>• Company car lease scheme (for certain grades)</li> <li>• Subsidized Car Parking Space</li> <li>• Complementary Pension Scheme <sup>4</sup> (contributions based on fixed compensation only)</li> <li>• Life and Disability Insurance, Subsidized Mortgage, Sympass (discount) card</li> </ul> </li> </ul>
<b>Variable Pay – general provisions</b>	<ul style="list-style-type: none"> <li>◆ Variable Compensation means compensation consisting of awards, payments or benefits based on performance criteria.</li> <li>◆ Variable remuneration is determined based on the individual performance of the members of staff, the Group wide performance, the performance of PBLU and the performance of the business unit of the concerned member of staff.</li> <li>◆ Performance is defined as a combination of: <ul style="list-style-type: none"> <li>• HSBC Group results versus scorecard objectives;</li> <li>• Business results of the Global Businesses and Global Functions versus scorecard objectives;</li> <li>• Business results of PBLU versus scorecard objectives; and</li> <li>• Individual achievement of results versus scorecard objectives.</li> </ul> </li> <li>◆ Variable pay can take one of the two following forms: <ul style="list-style-type: none"> <li>• Performance Related Discretionary Annual Bonus in cash; and</li> <li>• Performance Related Discretionary Annual Bonus using long-term incentive awards.</li> </ul> </li> <li>◆ The respective form to be used for the pay-out of variable pay, and as further highlighted under section “6. <i>Pay-out of variable compensation</i>”, will depend on different criteria as highlighter hereof: <ul style="list-style-type: none"> <li>• Level of variable pay;</li> <li>• Level of variable pay compared to the total compensation (i.e., proportionality principle); and</li> </ul> </li> </ul>

<sup>4</sup> 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 the SRR Principle 9, the Bank does not offer discretionary pension benefits.

	<ul style="list-style-type: none"> <li>• Classification as MRT or not.</li> <li>◆ 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 SRR Principle 12). 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. <i>For further details, please refer to SRR Principle 12.</i></li> </ul>
<b>Retention Bonus</b>	<ul style="list-style-type: none"> <li>◆ 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: <ul style="list-style-type: none"> <li>• The concerns that lead to the risk that certain staff may choose to leave PBLU;</li> <li>• The reasons why the retention of that staff member is of material importance to PBLU;</li> <li>• The consequence if the staff member concerned leaves PBLU; and</li> <li>• Whether the amount of the awarded retention bonus is necessary and proportionate to retain the targeted staff member.</li> </ul> </li> </ul>
<b>Buy-out from previous employment contracts</b>	<ul style="list-style-type: none"> <li>◆ Buy-out awards may be offered in the case of new hires and if an individual holds any outstanding unvested awards that are forfeited on resignation from the previous employer</li> <li>◆ The terms of the buy-out awards will not be more generous than the terms attached to the awards forfeited on cessation of employment with the previous employer and must align (in line with LSF 38-6 I) with the long-term interests of PBLU including performance and clawback arrangements.</li> <li>◆ As a result: <ol style="list-style-type: none"> <li>(1) The buy-out award are made in accordance with applicable laws and therefore comply with the requirements on variable remuneration, as highlighted throughout the Policy and notably section 6.</li> <li>(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: <ul style="list-style-type: none"> <li>○ Deferred cash awards will be replaced with HSBC deferred cash awards.</li> <li>○ All other instruments will be replaced with HSBC deferred share awards.</li> </ul> </li> </ol> </li> </ul>
<b>Guaranteed Variable pay</b>	<ul style="list-style-type: none"> <li>◆ Guaranteed variable remuneration is no longer awarded.</li> </ul>
<b>Target Variable pay</b>	<ul style="list-style-type: none"> <li>◆ Target Variable Pay is offered in exceptional circumstances for new hires and is limited to the individual's first year of employment only. Target VP is an indicative value which is stated in new hire offer letter and differs from a guaranteed VP as payment is subject to a number of factors (such as HSBC Group, Business and individual performance) and the final value remains at the full discretion of HSBC. It will be paid in line with Section 6 of this Policy. The exceptional circumstances where PBLU would offer target 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</li> </ul>

	hire candidate has any competing offers and the timing of the hire during the performance year.
<b>Severance payments</b>	<ul style="list-style-type: none"> <li>◆ 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.</li> <li>◆ 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.</li> <li>◆ Where the case may be, severance payments shall in all cases be at minimum those required by law or collective bargaining agreements.</li> </ul>

#### 4. Performance Management

<b>Performance Management</b>	<ul style="list-style-type: none"> <li>◆ As described above, 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.</li> <li>◆ 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.</li> <li>◆ 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)</li> <li>◆ 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.</li> <li>◆ Performance management at HSBC and PBLU is a continuous process, including specific activities throughout the year. The following are minimum requirements: <ul style="list-style-type: none"> <li>• All employees should have objectives set for each performance year;</li> <li>• All employees should be assessed at Year-End using a globally consistent rating scale;</li> <li>• All employees should have a formal performance review discussion at Year-End; and</li> </ul> </li> </ul>
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- All employees should be assessed using performance appraisal techniques to drive differentiation, including guided distribution and relative assessment, where appropriate.
- ◆ 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 his / her 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.
- ◆ HSBC also operates an Employee Recognition and Conduct framework, which provides a set of guidelines designed to reward exceptional conduct and handle any conduct breaches consistently across the Group. Rewarding positive conduct may take the form of use of our global recognition programme 'At Our Best', or via positive adjustments to performance and behaviour ratings and variable pay. The framework also provides guidance on applying negative adjustments to performance ratings and to variable pay, alongside disciplinary sanctions, where conduct breaches have been identified including overdue mandatory training.

*For more details, please refer to schedule II of the present Policy.*

## 5. PBLU variable pay pool

### Oversight

- ◆ In line with SRR Principle 6 on page 8 of the Policy, 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 the RemCo, the BoD 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

	<ul style="list-style-type: none"> <li>• The allocation of the Bank's local variable pay pool takes also into account all types of current and future risks.</li> <li>◆ 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.</li> <li>◆ 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.</li> </ul>
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## 6. Pay-out of variable compensation

<b>Bonus cap</b>	<ul style="list-style-type: none"> <li>◆ <b>For non-MRTs:</b> The Bank ensures an appropriate balance between the fixed and variable components of pay, without however introducing a bonus cap.</li> <li>◆ <b>For MRTs:</b> 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: <ul style="list-style-type: none"> <li>• PBLU shall notify the CSSF of its intent to distribute a variable pay exceeding 100%;</li> <li>• Shareholders HSBC engage in a voting process. When voting, all potential impacts on PBLU have to be taken into consideration;</li> <li>• 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</li> <li>• Once the vote has been completed and approved, PBLU shall send a notification to the CSSF on the outcomes of the vote.</li> </ul> </li> </ul> <p>The above process will be followed in line with CSSF Circular 15/622.</p>
<b>Bonus cap calculation</b>	<ul style="list-style-type: none"> <li>◆ 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: <ul style="list-style-type: none"> <li>• the total annual variable pay awarded for the performance year that equals the financial year; and</li> <li>• 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.</li> </ul> </li> </ul>

<b>Pay-out: non MRTs</b>	<ul style="list-style-type: none"> <li>◆ <b><u>If the variable pay is equal or below USD 75,000</u></b> (or equivalent in EUR currency), the employee shall receive his/her variable pay in form of an upfront payment in cash.</li> <li>◆ <b><u>If the variable pay is more than USD 75,000</u></b> (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.</li> </ul>															
	<table border="1"> <thead> <tr> <th>Total Variable Pay (USD) – to be applied in EUR equivalence</th> <th>Deferral % of Total Variable Pay (subject to variance)</th> </tr> </thead> <tbody> <tr> <td>Up to 75,000</td> <td>0%</td> </tr> <tr> <td>75,001 to 200,000</td> <td>10%</td> </tr> <tr> <td>200,001 to 350,000</td> <td>20%</td> </tr> <tr> <td>350,001 to 500,000</td> <td>30%</td> </tr> <tr> <td>500,001 to 750,000</td> <td>35%</td> </tr> <tr> <td>750,001 to 1,000,000</td> <td>40%</td> </tr> <tr> <td>Above 1,000,000</td> <td>50%</td> </tr> </tbody> </table>	Total Variable Pay (USD) – to be applied in EUR equivalence	Deferral % of Total Variable Pay (subject to variance)	Up to 75,000	0%	75,001 to 200,000	10%	200,001 to 350,000	20%	350,001 to 500,000	30%	500,001 to 750,000	35%	750,001 to 1,000,000	40%	Above 1,000,000
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750,001 to 1,000,000	40%															
Above 1,000,000	50%															
<b>Pay-out: MRTs</b>	<ul style="list-style-type: none"> <li>◆ As defined above, PBLU applies the proportionality principle at individual level. Subsequently: <ul style="list-style-type: none"> <li>• a <b>De Minimis MRT</b>, shall receive variable pay in accordance with the deferral policy listed above.</li> <li>• an <b>MRT</b>, shall follow rules as highlighted below.</li> </ul> </li> </ul>															

Topic	Details			
<b>Deferral period, vesting schedule &amp; retention period</b>	<b>MRT category</b>	<b>Deferral period</b>	<b>Retention period after vesting</b>	<b>Vesting schedule</b>
	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 ( <i>individuals with managerial responsibility in Control Functions and material business units</i> )	4 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 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.
<b>Variable pay deferral rate</b>	At least 40% for variable pay awards of <b>less than</b> GBP 500,000 (or local equivalent). At least 60% for variable pay awards <b>equal to or greater than</b> GBP 500,000 (or local equivalent) or where the individual is an Executive Director on the BoD.			
<b>Variable pay form</b>	<b>Non-deferred:</b> At least 50% in vested shares (subject to a retention period). <b>Deferred:</b> At least 50% in deferred shares (subject to a retention period).			
<b>Malus / clawback</b>	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 IV: additional HSBC policies relevant for deferrals, malus & clawback.

## 7. Governance – involvement of additional functions

<b>BoD</b>	<ul style="list-style-type: none"> <li>◆ As laid out under page 3 of the Policy</li> <li>◆ 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.</li> </ul>
<b>RemCo</b>	<ul style="list-style-type: none"> <li>◆ As laid out under page 3 of the Policy.</li> <li>◆ The RemCo is composed of members of the BoD, who do not perform executive functions.</li> <li>◆ The RemCo includes a majority of members who are independent and is chaired by an independent member.</li> </ul>
<b>Authorized Management</b>	<ul style="list-style-type: none"> <li>◆ The Authorized Management, together with the Head of HR, and with the involvement of the Control Functions, is responsible for daily / operational management of the Policy.</li> <li>◆ The Authorized Management works closely with the RemCo, BoD and relevant committees, to ensure the Policy is consistent with and promotes sound and effective risk management.</li> </ul>
<b>Control Functions</b>	<ul style="list-style-type: none"> <li>◆ 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.</li> <li>◆ 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.</li> <li>◆ 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.</li> <li>◆ They are also involved on an ongoing basis in the staff identification process in accordance with their respective roles.</li> <li>◆ They also assist the RemCo in reviewing the proposed local variable pay pool and assessing the necessity of potential adjustments.</li> </ul>
<b>HR function</b>	<ul style="list-style-type: none"> <li>◆ 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.</li> <li>◆ Furthermore, and within the context of gender neutrality, the HR function shall conduct an annual assessment and monitoring of the gender pay gap for: <ul style="list-style-type: none"> <li>• MRTs, excluding members of the Authorized Management;</li> </ul> </li> </ul>



	<ul style="list-style-type: none"> <li>• The Authorized Management; and</li> <li>• other staff.</li> </ul> <p>◆ 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.</p>
<b>Review of the Policy</b>	<p>◆ 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.</p>
<b>Committee</b>	<p>◆ As laid out under page 2 of the Policy.</p> <p>◆ The Committee relies on the PBLU BoD to report any information deemed necessary as per the Group remuneration framework.</p>
<b>8. Disclosure</b>	
<b>Internal disclosure</b>	<p>◆ All employees are regularly informed about their remuneration, criteria used to measure performance and the link between performance and pay through the intranet website.</p>
<b>External disclosure</b>	<p>◆ In compliance with article 38-11 of the LSF, PBLU explains on a website how it complies with corporate governance and remuneration.</p> <p>◆ 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.</p> <p>◆ CSSF will collect information published in compliance with Article 450.1.g), h), i), j) and k) of above - mentioned regulation.</p>
<b>Sustainability- related disclosure</b>	<p>◆ 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.</p>
<b>9. Additional Information</b>	
<b>Additional Information</b>	<p>◆ 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.</p>

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## **Schedule I: Performance assessment process**

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### **Performance Management Global Policy**

#### **Summary**

Performance management (PM) enables employees to deliver sustainable long-term performance for HSBC, aligned to our values. All employees and their manager have a shared and continuous responsibility to support and develop performance throughout the year.

PM involves setting clear performance objectives relevant to the role, providing regular feedback and recognition, assessing performance and behaviour, and coaching and supporting employees to perform to the best of their ability.

This policy should be read in conjunction with the Performance Management Procedure, available on HSBC Now, which sets out mandatory information.

#### **Purpose**

The purpose of this policy is to set out the minimum global standards for PM at HSBC. It provides guidance that will support HSBC to implement a globally consistent approach to PM, and all employees to create and sustain a high performance culture, enabling the organization to deliver its strategy and mitigate people risk.

Please note:

- The policy does not provide any contractual rights
- The policy does not override local regulations, collective agreements or other HSBC policies (e.g. disciplinary policy) in the location in which you work. Please ensure you are aware of any local regulatory requirements
- All employees are encouraged to also refer to other available supporting resources e.g. performance and talent management guides on HRDirect and relevant learning solutions on the HSBC University site

If you have any questions about this policy, please speak with your manager or contact HRDirect.

#### **Policy**

PM is continuous throughout the year (1 January – 31 December). It is an on-going dialogue between an employee, their manager<sup>5</sup> and other colleagues. Key activities are:

Objective setting commences at the start of each year (or within one month of joining HSBC or starting a new role) and continues throughout the year. All employees should record their performance objectives in HRDirect. Objectives should be fluid throughout the year and therefore employees and managers should work together to review, track and update objectives as appropriate.

Objectives should be relevant to the employee's role, and the activities they are responsible and accountable for, support our strategy, and comply with the rules and regulations for the role, and the standards of regulators and local geographies<sup>6</sup>.

<sup>5</sup> In most instances an employee's functional and entity manager are the same person. However, when they are different, the functional manager should initiate and manage key PM processes with the employee, in full collaboration with the entity manager (see the 'functional and entity management policy' for further details and the below 'exceptions' section for additional local requirements).

<sup>6</sup> It is all employees' responsibility to ensure their own and their team's objectives (if relevant) are in keeping with not only the strategy of the organization but the standards of the local regulators and geographies that they work in. It is imperative to ensure that objectives / targets set are suitable for the role and within the confines of the rules / regulations for that role. The guidelines below relate to specific activities / roles – they are a summary only, and do not cover all local rules/regulations.

Volcker Rule - No objectives should contradict trading desks designations under Volcker. The Regional Volcker Control Office (VCO) can provide support. Further information on the Volcker Rule can also be found in the Global Risk FIM B.2.16.4 Volcker Rule.

Everyday Performance and Development: Employees and managers should have regular check-in conversations throughout the year to support performance and development.

Year-end performance review is split into the following phases:

- Self-assessment - employees complete a self-assessment in HRDirect, summarizing their performance and behaviours against objectives and roles requirements
- Manager Assessment - managers assess employees' performance and behaviour for the year and select a performance rating and behaviour rating<sup>7</sup> in HRDirect (see appendices for 'unexpected rating combinations'). Ratings must be in HRDirect before pay recommendations are made. When making assessments, managers must ensure they are familiar with the 'Employee Recognition and Conduct Framework' including the impact of exceptional conduct and personal conduct breaches on performance and behaviour ratings. Assessments should not be based solely or mainly on quantitative financial criteria, and should take into account qualitative criteria
- Fairness Review - managers attend the relevant fairness review session to agree final ratings
- Year-end conversations - in which managers communicate final ratings to employees (see appendices for governance to rating changes) and record the conversation in HRDirect for the employee to acknowledge.

Performance improvement is required when the performance and/or behaviours of an individual has fallen below acceptable standards in the role. Employees should be given the opportunity, within a reasonable timeframe to improve.

Employees and managers are expected to raise performance concerns immediately and not wait until the formal year-end review to discuss issues for the first time. A Performance Improvement Plan (PIP), or local equivalent should be used to provide a structured opportunity for sustained improvement or alternative action needs to be considered. For support, contact HRDirect.

All matters relating to underperformance should be treated confidentially and are subject to local regulations and labour or collective bargaining agreements. Please refer to HRDirect for any country specific local guidance.

### ***How the policy is applied***

This policy applies to all active employees within HSBC. For exceptions see below.

Contingent workers and Service Providers are not in scope of this policy. However, they should follow the principles of this policy should they be responsible for supporting the performance of an HSBC employee.

For guidance on new joiners, leave of absence and leavers see Global: Special circumstances during the performance year.

### ***When issues may occur:***

Issues may arise at any point during the performance year. If an employee wants to challenge their rating(s), the local procedure should be followed. See 'Exceptions' section below for any local timescales that apply for challenging ratings.

As a minimum:

Employees and managers should discuss the issue with each other in the first instance.

If the issue cannot be resolved through the discussion, it should be raised by the employee or their manager to the manager's manager.

If there is still no resolution following these two steps, the employee should raise a case to HRDirect.

Information Security:

Control Functions - The objectives of Control Function employees should be part of a balanced scorecard and reflective of the functional role performed. Objectives relating to new business, volume, receivables and / or other growth objectives, measures and targets should be carefully considered and excluded where local policy dictates, as they may give rise to conflict of interest or the appearance thereof.

<sup>7</sup> All active employees in role before 1 October are eligible for ratings. Ratings do not need to be selected for leavers unless they remain eligible for variable pay.

Performance documents and ratings are designated restricted as per the 'Information Security classifications' and all employees must take action to protect this data from inappropriate or unauthorized use. Appropriate controls should be placed around the use of this data – this includes collection, recording, storage, alteration, disclosure, discussion, transmission and destruction of performance data. Employees have the right to access information held about them and to access their performance history.

### **Exceptions**

Functional and Entity management:

Information related to countries/entities that have additional legal and regulatory requirements for functional and entity management can be found in policy Global: Functional and Entity Management Mandatory Procedure.

### **Local Policies (that supplement the corresponding Global Policies)**

#### Europe:

France employees must not have calibration sessions or fairness reviews or be subjected to peer comparison, regardless of the country / region their manager works in.

France employees do not have their behaviours assessed based on HSBC values. There is no behaviour rating.

Germany have implemented formal PM (except calibration and fairness reviews) for Material Risk Takers and relevant persons according to MaComp in line with local regulatory requirements, employees working in global businesses and global functions. The remaining employees in Germany will be included from 2020. Germany use their own performance management system due to data protection requirements.

Unless there is an agreement with the employee, Luxembourg employees are not required to have a behaviour rating. However, the values aligned behaviour guide helps guide how employees should behave and appraising behaviour is part of the performance review.

#### Asia Pacific:

The unionized GCB8 employees in India bank are out of scope for PM.

Middle East, North Africa and Turkey:

SABB are not able to share performance data outside of Saudi Arabia and therefore have their own performance management system. As a joint venture they choose to use many of the policy and processes used at a Group level, however, are not obliged to do so.

#### United Kingdom:

If an employee wishes to challenge their year-end ratings, they must do so within one month of the ratings being communicated to them.

For further information, relating to the policy, refer to:

- o Performance management procedure
- o Global: Performance rating scale
- o Global: HSBC values-aligned behaviour guide
- o Global: What is Everyday Performance and Development?

## APPENDICES

### **Appendix 1 – Governance to ratings changes**

All performance and behaviour ratings should be in HRDirect by the end of the published year-end manager

assessment period. Any changes in ratings after this time should be agreed and actioned in HRDirect during the calibration or fairness review period.

Rating changes after the calibration or fairness period can be made in the following exceptional circumstances only:

- o Missing ratings
- o Successful rating challenge
- o New information about Personal Conduct (restricted rating scale applied)

Changes after the calibration or fairness review period must be requested by following the relevant late rating change process outlined below.

- o Change requests prior to 31 March 2021:

Rating changes after the calibration or fairness review period and before 31 March 2021 must be submitted by the employee's functional manager using the late rating changes approval request form in HRDirect. The request must be approved in HRDirect by the functional manager+1.

- o Change requests on or after 31 March 2021:

Rating changes must be submitted by contacting HRDirect, providing rationale and evidence to support the change, including approval from the functional manager+1

Note. Where changes are required to pre-2020 ratings, the functional manager should contact HRDirect. This should include rationale and evidence to support the changes, including approval from the functional manager+1. Such changes will only be made in exceptional circumstances (see points above).

## **Appendix 2 – Unexpected rating combinations**

There is a strong relationship between behaviour and performance. Decisions need to be well balanced, applying good evidence-based judgment. Managers need to ensure that there is robust evidence and rationale for decisions made using each rating scale.

Below are examples of the relationships between ratings, including some that might require more constructive rationale:

Role Model behaviours should support upwards performance differentiation

An Unacceptable behaviour rating must equate to an Inconsistent Performer rating; Unacceptable must not be paired with Top, Strong, or Good Performer

In the following cases, rationale must be provided for review and approval by the Head of Group Performance and Reward:

Role Model behaviour and Inconsistent Performer performance rating.

## **Appendix 3 – Performance management audit**

It is the responsibility of the first line of defense, Business/Function/HOST, leadership teams to determine if objectives and/or assessments are fit for purpose or if updates to any content therein are required based on their expert observation/review of individual performance documents.

Any specified objectives, such as those restricted for Control Functions (for example, Audit, Risk), should be reviewed and assessed by the Control Function or subject matter expert area requiring that language, and changes communicated by the same. Performance Management will support access to performance documents in these reviews, where access is not available.

If there are concerns relative to the findings, it is expected that the relevant Control Function (e.g. objective owner) communicate and resolve the issue directly with the assessed population's leadership team and provide the findings to Group HR PM for consideration. HR, and specifically PM, facilitates the process and provides guidance, in their second line of defense activities.

Weightings do not need to be applied to objectives but may be applied where locally required. If applied, it is the responsibility of the first line of defense (Business/Function/HOST, leadership teams) to ensure that any weightings applied to Objectives are set appropriately and balance to 100%. It is also the first line of defense' s responsibility to ensure that year-end decisions around performance and behavioural ratings, and any impact on Reward, also take into the account the weightings outcome applied to objectives.

## Schedule II: PBLU related regulatory framework

### Overview

Level	Reference
Directive	<ul style="list-style-type: none"> <li>◆ 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.</li> </ul>
Regulation	<ul style="list-style-type: none"> <li>◆ Article 450, of the European Regulation (EU) No 2019/876, of 20 May 2019, amending Regulation (EU) No 575/2013.</li> <li>◆ Article 5 of the European Regulation (EU) 2019/2088 on sustainability- related disclosures in the financial services sector.</li> <li>◆ 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.</li> </ul>
Law	<ul style="list-style-type: none"> <li>◆ "Loi du 5 Avril 1993 relative au secteur financier", as amended by the law of May 20th 2021 (hereafter "the <b>LFS</b>"), 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.</li> </ul>
EBA Guidelines	<ul style="list-style-type: none"> <li>◆ 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.</li> </ul>
CSSF	<ul style="list-style-type: none"> <li>◆ CSSF circular 10/437, on sound remuneration policies.</li> <li>◆ 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.</li> <li>◆ CSSF circular 14/585, with regards to ensuring that remuneration policies and practices are aligned with conflict of interest and conduct of business obligations.</li> </ul>

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***Schedule III: Additional HSBC policies in conjunction with the remuneration framework***

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- 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