



# Qatar National Bank UK Pillar 3 Remuneration Disclosures

31 December 2020

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## Introduction

The following disclosure explains how QNB UK has complied with the remuneration regulatory requirements under the PRA and FCA implementation of the Capital Requirements Regulation (CRR).

## Remuneration Governance

QNB has established a UK Remuneration Committee, which governs the UK branch as to ensure compliance as stipulated by the PRA, FCA and CRR. As per the UK Remuneration Committee Terms of Reference:

- Members consist of a Group executives who are independent of the UK Branch, which includes:
  - Assistant General Manager – HR Strategy & Integration (Chairman)
  - Group Chief Business Officer (Member)
  - General Manager – International Business Division (Member)
  - Senior Manager HR Policies and Rewards (Secretary)
- The UK Remuneration Committee meets:
  - Regularly to discharge its duties effectively.
  - At a minimum, the committee will convene four (4) meetings annually.
- The UK Remuneration Committee duties consist of:
  - Providing independent oversight and challenge of all remuneration matters in the UK, in line with the Committee's terms of reference. This includes approval of the individuals identified as Material Risk Takers (MRTs), review and approval of QNB UK's remuneration policies, and review and approval of decisions relating to MRT pay and the QNB UK bonus pool.
- Reporting
  - Should any changes be made, the UK branch will advise and submit a request for changes along with draft documents.
  - All change request and draft documents are submitted to Group HR, Group Risk and Compliance for review and endorsement.
  - Once Group HR, Risk and Compliance has reviewed and endorsed the changes, Group HR will submit this requests to UK Remuneration Committee to challenge, approve and/or decline.
  - The UK Remuneration Committee Chairman formally informs Group CEO of all changes and/or developments.
- The UK Remuneration Committee is satisfied that the Branch's remuneration approach is in line with regulatory requirements for a level 2 branch and was approved on 31 March 2020

## Material Risk Taker criteria

The UK Remuneration Committee oversees remuneration for staff identified as Material Risk Takers (MRTs). In 2020, 15 MRTs were identified, in line with the qualitative and quantitative criteria defined in the Regulatory Technical Standards published by the EBA and the Branch's own assessment of individuals who can create material risks through their day-to-day professional activities. The identification process and the final list of MRTs was approved by the Remuneration Committee.

Material Risk Takers are subject to the requirements of the PRA Rulebook and FCA Remuneration Code, which are applied to their remuneration arrangements where applicable.

## Link between pay and performance

The annual Performance Linked Bonus (PLB) is a discretionary cash award paid to participants following the end of the relevant performance year to drive and reward performance based on annual financial and non-financial measures consistent with the Group's medium to long-term strategy, shareholder interests and the individual's adherence to the QNB Group's values and code of conduct.

All QNB UK employees who join before 1 July, are eligible to be considered for a PLB. For the 2020 performance year, 15 MRTs participated in the PLB scheme. The maximum PLB award in respect of a financial year is limited to 8 months of an individual's basic salary (i.e. 67% of annual basic salary).

QNB Group determines the QNB UK bonus pool based on performance against the Branch scorecard / KPIs. This sets out a number of key measures and targets for the Branch including financial targets (including net profit), strategic targets, culture, governance and the robustness of the risk and control environment. Bonuses are allocated to individuals based on performance against a range of financial and non-financial personal objectives taking into account 'what' individuals have achieved as well as 'how' they have achieved their targets. This is then translated to a rating on a 4 point scale (Top Performer, Valued Contributor, Standard Performer, Low Performer).

Bonus allocations then depend on an individual's level within the organisation and their rating. Where overall performance is subdued, bonuses will typically be reduced, however final bonuses take into account a number of factors including market benchmarking and therefore bonus outcomes may also be increased to ensure that overall pay is competitive and key talent is retained

Risk management objectives form a part of the personal KPIs (goals and objectives) for each individual with a weighting of at least 10%. These goals and objectives are set to ensure that employees are accountable for identifying and managing risk within their area of operation and acting in accordance with applicable legal, regulatory and internal compliance requirements. All participants are required to adhere to branch governance, risk management and the AML compliance framework. All mandatory training requirements must also be completed along with the attainment of required levels of competence. PLB awards may be reduced under the disciplinary policy based on predetermined criteria where an individual demonstrates negative behaviours such as official censure for disciplinary breaches through the bonus period. There is a formulaic, documented, link between the level of reduction in the PLB dependent on the negative behaviours (and number of such negative behaviours) demonstrated by the individual.

The Group CRO is a member of the QNB Group Management Committee and at relevant meetings feeds in any material risk issues which should be borne in mind for remuneration outcomes.

All amounts under the PLB are paid to the individual in cash following the end of the relevant performance year if within the diminimus criteria(see later for rationale for the disapplication of deferral requirements).. If they are not within the diminus criteria, there is deferral or application of additional structural pay requirements.

During 2020 Performance Year, the established Risk Adjustment Forum reviewed whether any individuals were involved in a risk or conduct event as to consider and recommend any adjustment which should be made in line with the Risk Adjustment Policy. MRTs were subject to enhanced performance management to ensure non-financial factors are more robustly considered.

The Board Risk Committee agreed on QNB UK's risk appetite, and the Branch control functions were responsible for monitoring risk performance throughout the year. Key current and future risks, including credit risk, operational risk (including conduct risk) and enterprise risk was monitored throughout the year and as part of the compensation round the Risk function prepared a report for the UK Remuneration Committee to summarise performance and recommended that no adjustment to the bonus pool was required. The Risk Adjustment Forum also considered collective risk events in the Branch and made a recommendation to the UK Remuneration Committee that no adjustment to the bonus pool was warranted. Bonuses for MRTs are subject to malus and clawback and all the additional structural pay requirements.

Furthermore, a UK Remuneration Committee was formed, who has overriding discretion to recommend increases or decreases to the bonus pool to the Group CEO, and ultimately the Group Board, to ensure that it reflects overall business performance, is affordable and does not create any short or long term risks for the Company and in particular does not endanger the Company's capital position.

## Remuneration principles

QNB UK's remuneration program subscribes to the following principles:

- QNB adopts a 'total remuneration' approach that encompasses a mix of financial and non-financial rewards and enhances the total value proposition of employment within the organisation.
- While the concept of pay equity and fairness is paramount in any reward solution, the Bank shall adopt a flexible rather than a 'one size fits all' approach to rewards.
- Allow for the involvement of relevant shareholders.
- Provide for internal equity and individual salary progression based on fair and transparent principles and practices.
- Be affordable, understandable and simple to administer.
- To be aligned with business strategy, objectives, values and the long term interests of QNB UK, its shareholders and its clients.
- Attract, retain and motivate employees by creating alignment between performance and achievement of business imperatives as well as organisational performance standards.
- Ensure alignment with sound risk management.

## Components of Remuneration

### Fixed remuneration

Fixed remuneration consist of Basic salaries, pension contributions and benefits which is set with reference to market benchmarks and reviewed frequently to ensure it is set at a sufficient level to enable QNB UK to operate a fully flexible policy with regard to variable remuneration components, including the ability to pay zero bonuses where appropriate.

### Variable remuneration

All permanent fulltime employees, who joined before 1 July, are eligible to participate in QNB Group's annual bonus arrangement. This arrangement is designed to align the collective efforts of employees with the achievement of annual strategic measures and targets. Individual awards depend on financial and non-financial performance including risk and compliance.

QNB Group determines the QNB UK bonus pool based on performance against the Branch scorecard. This sets out a number of key measures and targets for the Branch including financial targets (including net profit), strategic targets, culture, governance and the robustness of the risk and control environment.

The Board Risk Committee agrees on QNB UK's risk appetite annually, and the Branch control functions are responsible for monitoring risk performance throughout the year. Key current and future risks, including credit risk, operational risk (including conduct risk) and enterprise risk are monitored throughout the year and as part of the compensation round the Risk function prepares a report for the UK Remuneration Committee to summarise performance and recommend whether an adjustment to the bonus pool is required. The Risk Adjustment Forum then makes a recommendation as to the size of that adjustment based on implementation of the Branch Risk Adjustment Policy. The Risk Adjustment Forum also considers any collective risk events in the Branch and makes a recommendation to the UK Remuneration Committee if an adjustment to the bonus pool is warranted.

The UK Remuneration Committee has overriding discretion to recommend increases or decreases to the bonus pool to the Group CEO, and ultimately the Group Board, to ensure that it reflects overall business performance, is affordable and does not create any short or long term risks for the Company and in particular does not endanger the Company's capital position.

## Individual performance assessment, deferral, malus and clawback

### Individual performance assessment

Bonuses are allocated to individuals based on performance against a range of financial and non-financial personal objectives taking into account 'what' individuals have achieved as well as 'how' they have achieved their targets. This is then translated to a rating on a 4 point scale (Top Performer, Valued Contributor, Standard Performer, Low Performer). Bonus allocations then depend on an individual's level within the organisation and their rating. Where overall performance is subdued, bonuses will typically be reduced, however final bonuses take into account a number of factors including market benchmarking and therefore bonus outcomes may also be increased to ensure that overall pay is competitive and key talent is retained.

Where an individual is involved in a risk or conduct event during the year, the Risk Adjustment Forum considers the facts of the case and recommends an adjustment in line with the Risk Adjustment Policy.

Individual risk adjustments include adjustments to in year bonuses, malus and clawback. Where possible adjustments are made to in year bonuses first, and then if further adjustment is required this is operated through malus and finally clawback. Identifying events where individual adjustments may be warranted is the responsibility of Group Risk, Group Compliance and Group HR (depending on the nature of the event). Where it is a straightforward breach of QNB's Human Capital Policy, the deductions included in that policy will apply. Where it is not clear if an adjustment is warranted (e.g. where poor decision making or action/inaction has led to a risk event), the following information should be provided to the decision maker to enable them to make a decision as to whether an individual adjustment is appropriate, and assist them with sizing that adjustment:

#### Deferral

40% of the variable remuneration will be deferred for at least 3 years (or 60% where the award is greater than £500,000). The vesting period depends on which category of MRT an individual is part of as follows:

MRT Category	Deferral Period and Structure
Senior Managers	7 years with no vesting taking place prior to year 3 and vesting no faster than a pro-rata basis thereafter.
Risk Takers (identified under Article 3 (1), (9), (10), (13) or (15) of the EBA RTS)	5 years on a pro-rata basis.
Other	3 years on a pro-rata basis.

#### Malus

Variable remuneration that has yet to vest, may be restricted, or reduced in circumstances including where:

1. There is reasonable evidence of employee misbehaviour or material error;
2. QNB UK suffers a material downturn in its financial performance;
3. QNB UK suffers a material failure of risk management; or
4. The UK Remuneration Committee feel it is appropriate based on their discretion.

#### Clawback

Variable remuneration, which has vested, may be recovered in part or in full, subject to the determination of QNB UK. QNB UK will determine the circumstances of each case. Such circumstances will include but will not be limited to the following:

1. There is reasonable evidence of employee misbehaviour or material error;
2. QNB UK has suffered a material failure of risk management; or

3. The UK Remuneration Committee feel it is appropriate based on their discretion.

Clawback applies for up to 7 years and may be extended to 10 years if a material risk event is identified within the first 7 years.

### Ratio between fixed and variable

QNB UK ensured that the ratio between fixed and variable components of total remuneration is appropriately balanced. Normally, QNB UK will not award variable remuneration to MRTs that exceeds 50% of the fixed pay of the employee, or 33% of the employee's total remuneration. QNB UK normally operates within a limit on variable pay of 100% of fixed pay however in exceptional circumstances, should QNB UK wish to award variable remuneration in excess of 100% but not exceeding 200% of the fixed pay of the employee, it will seek appropriate shareholder approval QNB UK's regulators will be notified.

### Quantitative remuneration disclosure

#### 1 - Aggregate remuneration – all employees

	2020		
Total Number of Employees <sup>1</sup>	Total Fixed Remuneration	Total Variable Remuneration	Total Remuneration
73	£6,138,608	£1,029,479	£7,168,087

1. Figures are based on the Bank's employee population as at 31 December 2020.

#### 2 - Aggregate remuneration<sup>3</sup> – Senior Management and other Material Risk Takers by Business Area

	2020		
	Number of employees	Remuneration type	Area 1 (£)
Senior Management <sup>1</sup>	8	Fixed Variable	£1,391,169 £421,764
Other MRTs	7	Fixed Variable	£806,515 £111,791
		<b>Total</b>	<b>£2,731,239</b>

1. Senior Management consists of those in a Senior Management Function (SMF) role under the Senior Managers Regime plus [any other roles that are ExCo equivalent]