

Pillar 3 Annual Remuneration Disclosures at 31 December 2013

Annual Remuneration

The following remuneration disclosure report has been prepared in accordance with the Australian Prudential Regulatory Authority's (APRA's) requirements under the APS 330 Public Disclosure standard. This disclosure standard requires that all Authorised Deposit-taking Institutions (ADI's) provide a public disclosure of qualitative and quantitative information on their remuneration practices.

Remuneration Governance

HBAU Board Sub-Committee on Remuneration

HSBC Bank Australia Limited's ("HBAU" or "the Bank") Remuneration Policy applies to all employees of HBAU and its subsidiary companies. HBAU is a subsidiary of HSBC Holdings plc ("the Group") and subject to the Remuneration Code of the Group's lead regulator, the UK Prudential Regulation Authority ("PRA"). The PRA's expectation is for its Remuneration Code to be applied at both Group and subsidiary level as part of an effective risk management and internal control mechanism. This is aligned with HBAU's Sub-Committee on Remuneration responsibilities as required by APRA.

The Remuneration Committee ("RemCo") of the Group, is tasked with the responsibilities and authorities to approve all remuneration matters, including the terms of variable pay plans, other long term incentive plans and individual remuneration packages of executive directors, other senior Group employees, employees in positions of significant influence, employees whose activities have or could have a material impact on the Group's risk profile or financial soundness, and any other employees as determined by that committee from time to time in accordance with the requirements of the Group's regulators.

A Sub-committee on Remuneration ("the Committee") is appointed by the HBAU Board (the "Board") and operates within the authority delegated by the Board.

The purpose of the Committee is to:

- consider, endorse, reject or recommend modifying the remuneration recommendations, including the quantum of fixed pay increases and variable pay;
- report to the Board, make a determination on any proposed claw-back or forfeiture of deferred variable pay for Key Management Personnel (see definition on page 2) for the purposes of aligning risk governance with the performance-based elements of any remuneration package;
- consider, endorse, reject or recommend modifying the Remuneration Policy or changes thereto;
- conduct regular reviews of the Remuneration Policy of the Bank and assess the effectiveness and compliance of the Remuneration Policy with the requirements of any current APRA Prudential Standard at least annually.

The last Committee meetings were held during February 2014 and December 2013 at which the Committee completed the following tasks:

- (a) reviewed the Remuneration Policy of the Bank recommended that the Board formally adopt the Remuneration Policy;
- (b) reviewed the adequacy and effectiveness of the Remuneration Policy, to assess the effectiveness and compliance of such with the requirements of any current APRA Prudential Standard;
considered the remuneration recommendations, including the quantum of fixed and variable pay;
- (f) approved the remuneration recommendation of the HBAU Chief Executive Officer; and
- (j) reconfirmed that no executive Director or Senior Manager of the Bank was involved in deciding their own remuneration.

The Committee did not engage external remuneration consultants for the year ending 31 December 2013.

The members of the Committee during 2013 are six non-executive directors, the majority of which are independent and not full-time employees by the Bank. They are Graham Bradley (Chairman), Carol Austin, Guy Harvey-Samuel, Richard Humphry, Mark Johnson, and Jayant Rikhye.

Key Management Personnel are employees subject to the remuneration disclosure requirements under APS 330 and are classified into two categories:

Senior Managers¹: The Bank has 13 employees identified as Senior Managers of which 4 are also considered Material Risk-Takers.

Material Risk-Takers: In addition to the 4 Senior Managers as per above, the Bank has 3 employees identified as Material Risk-Takers whose activities can materially affect the financial soundness of HBAU or a substantial part thereof.

Those designated as Senior Managers and/or Material Risk-Takers are the most senior executives of HBAU and are subject to the Remuneration Policy.

Remuneration Strategy

The quality and long-term commitment of our employees is fundamental to the success of the Bank and the Group and accordingly the Board aims to attract, retain and motivate the very best people who are committed to maintaining a long-term career with the organization, and who will perform in the long-term interests of shareholders.

The Group's reward strategy supports this objective through focusing on both annual objectives (linked to long term performance objectives in most cases) and sustainable performance over the long-term. It aims to reward success, not failure, and attempts to align employees' remuneration with our risk framework and risk appetite.

The reward strategy provides a framework on the assessment of reward with reference to clear and relevant objectives that are aligned to Group values of being 'open, connected and dependable' and acting with 'courageous integrity'. The framework also focuses on

¹ HSBC Senior Managers and Material Risk-takers = CEO, Group Executives and Senior managers identified as responsible persons as defined in Prudential Standards CPS 510 Governance and part of HBAU key management personnel.

the use of considered discretion by managers, to determine individual remuneration through assessment as to what extent performance has been delivered against both financial and non-financial objectives.

Altogether, performance is judged not only on what is achieved over the short and medium term, but also on how it is achieved, as the latter contributes to the sustainability of the organisation.

The financial and non-financial measures that comprise the annual and long-term scorecards are carefully considered to ensure alignment with the long-term strategy of the Bank and the Group.

Risk Management and Remuneration

The Bank's remuneration frameworks and policies are aligned with its Risk Appetite Statement (RAS). The annual variable pay pool is determined in the context of Group profitability, capital strength and shareholder returns, and the performance of the Group within the context of our RAS. This ensures that the variable pay pool is shaped by risk considerations. The RAS describes and measures the amount and types of risk that the Group is prepared to take in executing its strategy. The Group's Risk Appetite Framework (RAF) and RAS are key components of risk management and are expressed in diverse risk dimensions using various measures including Return on Risk Weighted Assets, Profit Growth, Cost Efficiency, Capital and Leverage Ratios, Expected Losses, Reputational Risks, etc. The RAF and the RAS shapes the integrated approach to business, risk and capital management and supports achievement of the Bank's and the Group's objectives. In addition, the Group reward funding methodology considers the relationship between capital, dividends and variable pay to ensure the distribution of post-tax profits between these three elements is considered appropriate.

All employees have non-financial risk objectives within their performance objectives designed to ensure that employees:

- understand and adhere to both the letter and the spirit of all laws, regulations and regulatory guidance that apply to the Group and the Bank, and are required to report any breaches in accordance with local procedures;
- maintain sufficient and effective processes and controls in identifying and mitigating risks and ensure timely escalation and resolution of all control issues and risks;

- adhere to applicable global, regional and country policies and standards including Group standards, Global Function instructions and Global Business instructions;
- achieve completion of Risk and Compliance mandatory training.

Risk and Compliance carry out annual reviews which determine whether there are any instances of non-compliance with risk procedures and expected behaviour. Instances of non-compliance are escalated to senior management for consideration in variable pay decisions, claw-back and ongoing employment.

Thematic reviews of risk are also carried out to determine if there are any transgressions which could affect the amount of current year variable pay or any instances where claw-back of previously awarded variable pay may be required.

Linking Pay and Performance

Objectives determined at Group level are cascaded throughout the Group, thereby driving an aligned set of objectives. The variable pay allocation earned by an individual is dependent on the achievement of the individual's objectives, which derive from those objectives determined at Group level. Objectives include both financial and non-financial metrics, and actual payout levels depend on the performance of the Group, Global Businesses, Global Functions, the Asia-Pacific Region, HBAU, and of the individual. This ensures that our application of remuneration practises are aligned with the short and long term objectives of the Bank and the Group.

Discretionary variable pay is dependent on the achievement of both financial and non-financial objectives. Overall performance is judged on performance outcomes and, importantly, adherence to the Group values which are key to the running of a sound and sustainable bank. Actual levels of variable pay depend on the performance of the Group, its constituent businesses and functions, the Bank and the individual.

Variable pay allocations are made by considering the following:

- weighted financial and non-financial performance metrics, with special attention to risk and compliance and the metrics contained in the Group's RAS; and
- assessment of financial performance, which is principally based on profits as opposed to

revenues, and also taking into account the current and future risk associated with the generation of the profit.

The purpose of variable pay is to reflect the extent to which the Group and the Bank's annual objectives have been met, adherence to the RAF, absolute and relative performance to peers and competitive market practice.

Remuneration Design

Remuneration comprises fixed pay and variable pay (short term incentive scheme payments, annual bonus and long term incentives) designed to reward performance.

Fixed pay consists of base pay, which includes cash and salary sacrifice items, and superannuation. Fixed pay and benefits are reviewed annually in the context of business performance, internal relativities and market practice.

To ensure that the interests of the Group and its employees are aligned with those of its shareholders, that the Group's approach to risk management supports the interests of all stakeholders and that remuneration of key management personnel is consistent with effective risk management, the Group requires a proportion of variable pay awards above certain thresholds to be deferred into awards of Restricted Shares. This ties the recipients to the future performance of the Group and aids as a retention strategy. Subject to claw-back provisions the restricted shares are released over a three year period as 33% in year 1, 33% in year two, and the final vesting of 34% in year 3.

The variable pay pool for employees employed within the Risk and Compliance function is independently determined on a top-down approach at Group level and does not form part of the pool determination for the remainder of the Bank's employees. The Group's discretionary approach in determining variable pay for Remuneration Code Staff, as defined by PRA, ensures that any possible conflicts of interest are fully considered in determining the individual awards. All variable pay and incentive schemes are required to adhere to a set of policy principles and approval standards as defined in the Group Standards Manual. Under the terms of the Group Standards Manual, all plans require the approval of the Finance, Risk, Legal, Compliance and HR functions. The Finance function validates the achievement of relevant financial metrics

(e.g. the definition of profitability from which variable pay funding is derived).

Finally, in considering individual awards, a comparison of the pay and employment conditions of the Bank's employees and senior executives is considered by the Committee.

Quantitative Disclosures

The Committee met once during 2013 whereby the pay review recommendations for fixed pay and variable pay for the 2013 performance year were approved.

No additional specific fees are paid to members of the Committee in addition to the normal board and committee fees paid to those independent non-executive directors.

All Senior Managers and Material Risk-Takers were allocated variable pay for the 2013 performance year, details of the 2013 variable pay allocations are outlined in Table I. There were no guarantees or sign-on bonuses awarded to Senior Managers or Material Risk-Takers. There were no severance payments made to Senior Management or Material Risk-Takers during 2013.

There were no reductions to the value of outstanding deferred remuneration during 2013 due to either ex post explicit or implicit² adjustments.

Details of the outstanding deferred remuneration are outlined in Table II.

Quantitative Tables

The following tables have been prepared in accordance with the quantitative requirements outlined in APS 330.

Table I provides details on the aggregate fixed pay and variable pay for Material Risk-Takers and Senior Managers for the performance year ending 31 December 2013.

Table II provides details of outstanding deferred remuneration for Material Risk-Takers and Senior Managers as outstanding on 31 December 2013.

² Implicit adjustment includes the downward movement of the value of the restricted shares from grant date to 31 December 2013.

Table I

Remuneration Item	Senior Managers ³ \$'000	Material Risk- Takers ⁴ \$'000
Fixed Remuneration		
Fixed base salary ⁵ (Non Deferred)	4,776	701
Other ⁶ (Non Deferred)	1,147	4
Variable Pay		
Cash (Non- deferred) ⁷	3,073	805
Cash (Deferred)	-	-
Restricted shares (Deferred) ⁸	1,294	307
Vested restricted shares ⁹	1,265	89

³ Includes 4 Senior Managers also considered as Material Risk-Takers.

⁴ Excludes the 4 Senior Managers captured under "Senior Managers" as per footnote 3.

⁵ This includes base salary, superannuation and all items packaged as part of salary.

⁶ This includes non-salaried items including car parking costs and associated benefit tax.

⁷ Non deferred cash is the cash portion on the bonus payment that is not subjected to any deferral.

⁸ Variable pay awards greater than US\$75,000 is subject to a proportion being deferred into HSBC restricted shares.

⁹ Values are at face value with the share price and FX rate as at the time of vesting.

Table II

Remuneration Item	Senior Managers² \$'000	Material Risk- Takers⁴ \$'000
Outstanding Remuneration		
Cash	-	-
Share Based Rewards¹⁰		
Share and share linked awards	1,778	550

¹⁰ Values are at face value of the outstanding restricted shares and with the share price and FX rate as at 31 December.