

Pillar 3 Annual Remuneration Disclosures at 31 December 2016

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.

Qualitative Disclosures

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 Rules of the Group's lead regulator, the UK Prudential Regulation Authority ("PRA").

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 Bank's remuneration is governed by the Committee at a local level and its responsibilities are aligned with the PRA's expectation in that its remuneration rules are to be applied at both Group and subsidiary level as part of an effective risk management and internal control mechanism.

The Group Remuneration Committee ("RemCo") 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.

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 Malus (reduction and cancellation of unvested deferred awards) 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 meeting was held during December 2016 at which the Committee completed the following tasks:

- (a) reviewed the Remuneration Policy of the Bank and 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;
- (c) considered the remuneration recommendations, including the quantum of fixed and variable pay for the Bank;
- (d) approved the remuneration recommendation for the HBAU Chief Executive Officer; and

(e) reconfirmed that no executive Director or Senior Manager of the Bank was involved in deciding their own remuneration.

The Committee did not obtain advice from external remuneration consultants for the year ending 31 December 2016.

The members of the Committee during 2016 are five 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, 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: During 2016 the Bank had 18 employees identified as Senior Managers of which 4 are also considered Material Risk-Takers (“MRTs”).

Material Risk-Takers: In addition to the 4 Senior Managers as per above, the Bank has 1 employee identified as a Material Risk-Taker 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

Our remuneration strategy is designed to reward competitively the achievement of long-term sustainable performance and attract and motivate the very best people who are committed to maintaining a long-term career with the Group and performing their role in the long-term interests of our shareholders.

Sound and effective risk management of our remuneration practices are achieved through the alignment of our remuneration framework with our risk management framework. Under our remuneration framework, pay decisions are informed by multiple factors such as business results, individual performance against scorecard objectives and adherence to HSBC values, business principles, policies, procedures and Global Standards.

¹ HSBC Senior Managers and Material Risk-takers = CEO, Group Executives and Senior managers identified as responsible persons

Additional features of HSBC’s remuneration framework include:

- a focus on total compensation (fixed plus variable pay) with variable pay (namely annual incentive and the value of long term incentives) differentiated by performance and adherence to HSBC values;
- the use of discretion to assess the extent to which performance has been achieved; and
- deferral of a significant proportion of variable pay into HSBC shares to tie recipients to the future performance of the Group and align the relationship between risk and reward

Risk Management and Remuneration

The Bank’s remuneration frameworks and policies are aligned with its Risk Appetite Statement (RAS). The Group Risk Committee will also review the performance against risk appetite and has cross membership/attendance with RemCo. The Regional Chief Risk Officer provides regular updates of the regional risk appetite positions to the Regional Risk Committee. This ensures that the variable pay pool is shaped by risk considerations and any Group-wide notable events. 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. The Group’s annual variable pay pool is determined based on a review of a number of factors including financials (including an allocation model of retained earnings, dividends and variable pay), risk and market benchmarking.

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

as defined in Prudential Standards CPS 510 Governance and part of HBAU key management personnel.

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.

In addition to the performance management process that covers all employees, there are additional reviews which support the assessment of how performance has been achieved. These include:

- A separate behavioral rating covering all employees, which informs their eligibility for variable pay and influences their variable pay determinations.
- A formal process of identifying “notable events”².
- A Global Consequence Management Framework to support and guide line managers to deal with employee conduct breaches and apply the appropriate actions including variable pay award adjustments.

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 for the Bank 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.

At the end of each performance year the overall performance is judged on performance outcomes and, importantly, adherence to the Group values which are

keys 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. This ensures that risk management is embedded and forms an integral part of all our activities.

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, fixed pay allowances, 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 and cash. This ties the recipients to the future performance of the Group and aids as a retention strategy. Subject to Malus provisions the deferred restricted shares and cash are released over

² Notable events are identified by Group Risk and agreed with the Group Risk Committee and Group Remuneration Committee. Following investigation of the event by representatives of Risk, HR,

Compliance & Legal, the event and any consequence for employees is detailed in a malus report and submitted to the UK PRA and FCA (Financial Conduct Authority).

a three year period as 33% in year 1, 33% in year two, and the final vesting of 34% in year 3.

Senior Managers and Material Risk-takers have their deferral arrangements outlined in the table below:

Role Type	Deferral Arrangement
Senior Managers	<ul style="list-style-type: none"> Based on a sliding scale starting at 10% of total variable pay awards exceeding USD 75,000 up to 50% of variable pay awards exceeding USD 1,000,000, a portion of total variable pay is deferred in restricted shares (RSU's). RSU's to vest over three years as 33%, 33% and 34%
Material Risk takers	<ul style="list-style-type: none"> Variable pay awards up to GBP 500,000 40% deferred and delivered in 20% RSU's and 20% in cash Deferral to vest over three years as 33%, 33% and 34% Variable pay awards exceeding GBP 500,000 60% deferred and delivered in 30% RSU's and 30% in cash Deferral to vest over three years as 33%, 33% and 34%

Group policy is for control functions staff to report into their respective function. Individuals in control functions have a formalized direct reporting line through the functions rather than through the business to ensure conflicts of interest are avoided. The performance and hence remuneration of control function staff is assessed according to a balanced scorecard of objectives specific to the functional role they undertake. The Group's discretionary approach in determining variable pay for Material Risk Takers, 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 variable pay and incentive 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 2016 whereby the pay review recommendations for fixed pay and variable pay for the 2016 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 active Senior Managers and Material Risk-Takers as at 31 December 2016 were allocated variable pay for the 2016 performance year, details of the 2016 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 2016.

There were no reductions to the value of outstanding deferred remuneration during 2016 due to either ex post explicit or implicit³ adjustments.

³ Implicit adjustment includes the downward movement of the value of the restricted shares from grant date to 31 December 2016.

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 2016.

Table II provides details of outstanding deferred remuneration for Material Risk-Takers and Senior Managers as outstanding on 31 December 2016.

	31 December 2016		31 December 2015	
Table I	Senior Managers ⁴	Material Risk-Takers ⁵	Senior Managers	Material Risk-Takers
Remuneration Item	\$'000	\$'000	\$'000	\$'000
Fixed Remuneration				
Fixed base salary (Non Deferred) ⁶	4,050	2,444	5,913	367
Other(Non Deferred) ⁷	519	167	1,313	-
Variable Pay				
Cash (Non- deferred) ⁸	2,200	1,085	2,620	152
Cash (Deferred)	61	500	436	101
Restricted shares (Non-deferred)	91	750	654	152
Restricted shares (Deferred)	496	644	759	101
Vested restricted shares ⁹	266	637	1,383	0
Vested Deferred Cash	179	1,380		

	31 December 2016		31 December 2015	
Table II	Senior Managers ⁴	Material Risk-Takers ⁵	Senior Managers	Material Risk-Takers
Remuneration Item	\$'000	\$'000	\$'000	\$'000
Outstanding Remuneration				
Cash	11	1,624	501	-
Share Based Rewards				
Share and share linked awards ¹⁰	925	1,703	2,020	300

⁴ Includes 14 Senior Managers and excludes 4 that is also considered as Material Risk-Takers.

⁵ Includes 1 MRT's and the 4 Senior Managers also considered as Material Risk-Takers.

⁶ Includes base salary, fixed pay allowances, superannuation and all items packaged as part of salary.

⁷ Includes non-salaried items such as car parking costs and associated benefits tax and excludes any allowances that are included in fixed base salary.

⁸ Cash portion of variable pay that is not subject to retention.

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

¹⁰ Values are at the face value with the share price and FX rate as at reporting date.