

Pillar 3 Annual Remuneration Disclosures at 31 December 2018

Annual Remuneration

1. INTRODUCTION

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 remuneration practices.

Qualitative remuneration information applies to all employees (including executives) of HSBC Bank Australia Limited ("HBAU" or "the Bank"). Quantitative remuneration information relates to identified Senior Managers and Material Risk takers of HBAU:

Senior Managers: managers covered by the HBAU Remuneration Policy. Effectively, this group covers the Australian Chief Executive Officer and their executive direct reports.

Material Risk-Takers (MRTs): executives/senior managers whose activities can materially affect the financial soundness of HBAU or a substantial part thereof OR for whom variable pay comprises a significant proportion of total reward.

Those designated as Senior Managers and/or MRTs are the most senior executives of HBAU.

During 2018 the Bank had 13 executives identified as Senior Managers and seven identified as MRT. Five executives were considered to be both Senior Managers and MRTs.

2. QUALITATIVE DISCLOSURES

Remuneration Governance

HSBC Bank Australia Limited is a direct subsidiary of The Hong Kong and Shanghai Banking Corporation Limited (HBAP) which in turn is a direct 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").

The HSBC Group Remuneration Committee ("RemCo") is tasked with the responsibility and authority 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 the Committee from time to time in accordance with the requirements of the Group's regulators.

Within Australia, the Board Sub-Committee on Remuneration (the "Committee") is authorised to consider, endorse, reject or recommend modifying the remuneration recommendations, including the quantum of fixed pay increases and variable pay, and to make a determination on any proposed malus, clawback or forfeiture of deferred variable pay for 'key management personnel'¹ for the purposes of aligning risk governance with the performance-based elements of any remuneration package.

¹ Key Management Personnel (KMP) are those executives with the authority and responsibility for planning, directing and controlling the activities of the entity

HBAU Remuneration Policy

Remuneration for all employees of HBAU and its subsidiary companies is governed by the HBAU Remuneration Policy.

The Policy details:

- HBAU's reward strategy (see detail further in report);
- reward objectives;
- link between pay and performance;
- design and structure of remuneration;
- approach to gender pay equity; and
- Board governance and oversight

The policy is determined and approved by the HBAU Board and complies with the HSBC Group remuneration policy.

HBAU Board Sub-Committee on Remuneration

A sub-committee on Remuneration has been appointed by the HBAU Board and operates within the authority delegated by the Board in accordance with the Bank's responsibilities under APRA's prudential standards. The Committee's responsibilities are also in line with the expectation of the PRA that remuneration rules are to be applied at both Group and subsidiary level, reflecting effective risk management and internal controls.

The purpose of the Committee is to:

- consider, endorse, reject or recommend modifying remuneration recommendations, including the quantum of fixed pay increases and variable pay;
- make a determination on any proposed malus (reduction and cancellation of unvested deferred awards) for KMP and clawback (requirement to repay vested awards) 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; and
- conduct regular reviews of the Remuneration Policy of the Bank and, at least annually, assess the effectiveness and compliance of the Remuneration Policy with the requirements of any current APRA Prudential Standard.

The Committee met three times in 2018. At these meetings, the Committee:

- Reviewed and agreed relevant changes to the Remuneration Policy of the Bank and recommended that the Board formally adopt the Remuneration Policy;
- reviewed progress of the implementation of the Sedgwick recommendations.
- confirmed the compliance of the Remuneration Policy with the APRA standard CPS 510;
- endorsed the adoption of a formal Remuneration Policy Effectiveness Framework, aligned with the nine remuneration principles of the Financial Stability Board to be implemented at the conclusion of the PY2018 Pay Review;
- considered remuneration recommendations, including the quantum of fixed and variable pay for employees of the Bank;
- approved the remuneration recommendation for the HBAU Chief Executive Officer and their executive direct reports; and
- 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 ended 31 December 2018.

Members of the Sub-Committee on Remuneration

Six non-executive directors ("NEDs") served as members of the Committee for all or part of the 2018 year, the majority of whom are independent and not full-time employees of HBAU. They were Graham Bradley (Chairman), Carol Austin, Jann Skinner, Matthew Lobner, Tony Cripps and Kenneth Ng.

Committee members do not receive additional fees for service on the Sub-Committee.

Remuneration Strategy

HBAU's 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 while performing their roles in the long-term interests of our stakeholders. We believe that remuneration is an important tool for instilling the right behaviours, and driving and encouraging actions that are aligned to organisational values and expectations.

The remuneration strategy is based on the following principles:

- an alignment to performance at all levels taking into account both 'what' has been achieved and 'how' it has been achieved. The 'how' helps ensure that

performance is sustainable in the longer term, consistent with HSBC's values, conduct and risk and compliance standards;

- being informed, but not driven by, market position and practice. Market benchmarks are sourced through independent specialists and provide an indication of the range of pay levels and employee benefits provided by our competitors;
- targeting pay for employees across the full market range depending upon their individual performance and that of HBAU. An individual's position in this market range will also vary depending upon their performance in any given year.

Remuneration Framework

HBAU's remuneration framework enables delivery of the remuneration strategy. Principles of the framework include:

- offering our employees a competitive total reward package that includes a mix of fixed pay, variable pay and employee benefits;
- maintaining an appropriate balance between fixed pay, variable pay and employee benefits, taking into consideration an employee's seniority, role, individual performance and market;
- offering market competitive fixed pay levels that allow our employees to meet their basic day to day living expenses;
- variable pay is awarded on a discretionary basis and dependent upon Group, HBAU and individual performance;
- employee benefits offered should be valued by a diverse workforce, appropriate at the local market level and support HSBC's commitment to employee well-being;
- promoting employee share ownership through variable pay deferral or voluntary enrolment in an all employee share plan;
- reward packages should be linked to performance and behavior with no bias towards an individual's ethnicity, gender, age, or any other characteristic; and
- the application, if appropriate, of malus and clawback to appropriately adjust variable payments for outcomes realised after award. Group wide policies provide consistent guidelines and criteria across the Bank.

Remuneration Design

Remuneration at HSBC comprises fixed pay and variable pay:

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.

Variable pay consists of short term incentive scheme payments, annual bonus and long term incentives designed to reward performance.

An overall variable award may be made as cash (deferred or immediate), or shares (deferred or immediate). The mode of delivery of an executive's award is determined by a number of factors:

- nature of role performed (i.e. are they MRT?); and
- quantum of award (does award exceed minimum thresholds).

The section below provides further detail on the Bank's deferral policies and practices.

All variable pay and incentive schemes are required to adhere to a set of design principles. All variable pay and incentive plans require the approval of the Finance, Risk, Legal, Compliance and Human Resources functions. The Finance function validates the achievement of relevant financial metrics.

Deferral of Variable Pay

HSBC Group requires a proportion of variable pay awards above certain thresholds to be deferred into awards of restricted shares and cash. The purpose of this is to ensure that:

- the interests of the Group and its employees are aligned with those of its shareholders;
- the Group's approach to risk management supports the interests of all stakeholders; and
- remuneration of KMP is consistent with effective risk management.

The deferral of variable pay ties recipients to the future performance of the Group. Subject to malus provisions, the deferred restricted shares and cash are released in equal tranches over the applicable vesting period.

The deferral arrangements for Senior Managers and MRTs are outlined in the table below:

	Senior Managers	Material Risk-Takers	
Award Threshold	USD 75,000	< GBP 500,000	> = GBP 500,000
% Deferral	Sliding scale from 10% of award over USD 75,000 to 50% of award over USD 1,000,000	40%	60%
Vehicle	Restricted Shares (RSUs)	50% RSUs/50% Cash	
Vesting	3 years (year 1: 33%, year 2: 33%, year 3: 34%)		
	Those MRTs identified as Risk Managers* under the Group MRT definition are subject to deferral of 5 years vesting in 5 equal instalments		
Retention post vesting	No	Up to a period of one year	

**In 2018, no MRT in Australia were designated as a "Risk Manager", however one MRT has been subject to the Risk Manager deferral schedule in prior performance years.*

Linking Pay and Performance

Objectives determined at Group level are cascaded throughout the Group, thereby driving an aligned set of objectives. The total variable pay earned by an individual is dependent on the achievement of the individual's objectives, which are derived from those objectives determined at Group level. Objectives include both financial and non-financial metrics and are weighted according to the nature of the role performed. Actual payout levels depend on an overall performance outcome, combining the performance of the Group, Global Businesses, Global Functions, the Asia-Pacific Region, HBAU, and of the individual. This ensures that remuneration structures drive achievement of the short and long term objectives of the Bank and the Group and that outcomes are reflective of actual performance against these objectives. HSBC's Group values are deemed to be key to the running of a sound and sustainable bank and are an additional determinant of actual payout levels.

Variable pay allocations are made by considering:

- weighted financial and non-financial performance metrics, with special attention to risk and compliance and the metrics contained in the Group's Risk Appetite Statement ("RAS") (see below for definition of the RAS); and
- assessment of financial performance, which is principally based on profit as opposed to revenue and also taking into account the current and future risk associated with the generation of the profit.

Risk Management and Remuneration

HBAU's remuneration framework is supported by the Group's enterprise risk management framework ("RMF"). The RMF outlines the HSBC Group's overall approach to risk management and how this supports robust decision making.

HSBC defines Risk Appetite as the type and quantum of risks that the Bank is willing to accept in achieving its medium and long-term strategic goals. Risk Appetite contributes significantly to a strong and integrated RMF and risk culture, helping direct and support sustainable growth against the backdrop of a heightened risk environment. Risk Appetite is also used in active risk management, alongside other enterprise risk management tools such as risk map and top and emerging risks. The RAS is a key component of the overall RMF.

The RAS describes and measures the amount and types of risk that HBAU and the Group is prepared to take in executing its strategy. Risk appetite is expressed in terms of diverse quantitative and qualitative risk dimensions.

The Bank's remuneration frameworks and policies are aligned with the RAS. At a Group level, the Group Risk Committee has responsibility for reviewing performance against the Group RAS, with the Group Chief Risk Officer providing regular updates on Group risk appetite positions to the Group Risk Committee and the Group RemCo.

The Group Risk Committee also has cross membership with the Group RemCo with the Group Chief Risk Officer being a regular attendee of the Group RemCo. This ensures that the variable pay pool is shaped by risk considerations and any Group-wide notable events. 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. Local risk considerations and performance then inform the final size of the Australian variable pay pool.

There is similar cross membership and governance structure for HBAP Risk and Remuneration Committees.

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

- 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 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; and
- complete Risk and Compliance mandatory training in a timely manner.

In addition to performance management processes which measure what has been achieved, there are additional considerations which support the overall assessment of how performance has been achieved. These include:

- a separate behavioural rating for all employees, which determines their eligibility for variable pay and influences their variable pay outcomes;
- a formal process of identifying "notable events"²; and
- a Global Employee Recognition and Conduct Framework (ERCF) to support and guide line managers to deal with both employee conduct breaches as well as demonstrations of exemplary values, behaviours and risk-focused performance and to apply the appropriate actions including variable pay award adjustments, both positive and negative.

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) and to APRA.

Control Functions

Under HSBC Group policy, control functions (including Risk and Financial Control) staff report into their respective function i.e. individuals in control functions have a formalised direct reporting line through the functional line 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 MRTs, as defined by the PRA, ensures that any possible conflicts of interest are fully considered in determining individual awards.

3. QUANTITATIVE DISCLOSURES

Sub-Committee Member Remuneration

The Committee reviewed and approved fixed and variable pay recommendations for the 2018 performance year at the December 2018 meeting. During this meeting, the Committee also reviewed and endorsed the HBAU Remuneration Policy as outlined above.

Committee members receive standard Board fees for service on the HBAU Board and do not receive additional fees as compensation for membership of the Sub-Committee.

Senior Manager and Material Risk-Taker Remuneration

The type and award of variable payments to Senior Managers and MRTs in 2018 are summarised in the table below:

Type of Variable Payment	Awarded in 2018
Performance-based variable pay	Yes – to 20 active (as at 31 Dec) Senior Managers and MRTs*
Guaranteed Bonuses/Sign-on Bonuses	Yes – guaranteed bonus awarded to one new joiner - \$320,000**
Severance payments	Not awarded

**Details of the 2018 variable pay allocations are outlined in Table I.*

***Included in totals reported in Table I.*

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 MRTs and Senior Managers for the performance year ended 31 December 2018.

Table II provides details of outstanding deferred remuneration for MRTs and Senior Managers as at 31 December 2018. Total outstanding deferred remuneration includes adjustments made as a result of ex post implicit adjustments³.

³ Ex-post implicit adjustments reflect share price fluctuations between 1 January 2018 and 31 December 2018

Table I

	31 December 2018		31 December 2017	
Remuneration Item	Senior Managers⁴ \$'000	Material Risk-Takers³ \$'000	Senior Managers⁴ \$'000	Material Risk-Takers⁵ \$'000
Fixed Remuneration				
Fixed base salary (Non Deferred) ⁷	3,390	3,990	3,570	3,323
Other(Non Deferred) ⁸	273	643	249	401
Variable Pay				
Cash (Non- deferred) ⁹	2,230	1,269	1,669	1,165
Cash (Deferred)	0	846	0	918
Restricted shares (Non-deferred)	0	1,269	0	1,165
Restricted shares (Deferred)	389	846	344	918
Vested restricted shares ¹⁰	362	2,198	365	1,686
Vested Deferred Cash	20	705	527	2,166

Table II

	31 December 2018		31 December 2017	
Remuneration Item	Senior Managers² \$'000	Material Risk-Takers³ \$'000	Senior Managers⁴ \$'000	Material Risk-Takers⁵ \$'000
Outstanding Remuneration				
Cash	214	1,365	106	1,160
Share Based Rewards				
Share and share linked awards ¹⁰	509	1,967	745	2,153

⁴ Includes 13 Senior Managers and excludes 5 that are also considered as Material Risk-Takers.

³ Includes 2 MRTs and the 5 Senior Managers also considered as MRTs.

⁴ Includes 11 Senior Managers and excludes 7 that were also considered as Material Risk-Takers.

⁵ Includes 2 MRTs and the 7 Senior Managers that were also considered as MRTs.

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.