

## Pillar 3 Annual Remuneration Disclosures at 31 December 2019

### 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 2019, the Bank had ten executives identified as Senior Managers and seven identified as MRT. Five executives were considered to be both Senior Managers and MRTs.

Seven Senior Managers and four MRT were also identified as Accountable Persons (APs) under the Banking Executive Accountability Regime (BEAR), which came into effect on 1 July 2019.

#### 2. QUALITATIVE DISCLOSURES

##### Remuneration Governance

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

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 RemCo from time to time in accordance with the requirements of the Group's regulators.

Within Australia, the 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 the Australian Prudential Regulation Authority (APRA's) prudential standards. The Sub-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.

## HBAU Remuneration Policy

Remuneration for all employees of HBAU 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.

The Remuneration Policy was last updated in July 2019.

## HBAU Board Sub-Committee on Remuneration

The Sub-Committee has been appointed 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 of the Policy and compliance of the Policy with the requirements of any current APRA Prudential Standard.

The Sub-Committee met twice in 2019. Outside of the formal Sub-Committee meetings, the Board received updates on and considered remuneration matters. During 2019, the Sub-Committee or Board:

- undertook a review of Remuneration Policy effectiveness with regards to the outcomes of the PY2018 Pay Review;
- reviewed and agreed relevant changes to the Remuneration Policy of the Bank, confirmed the compliance of the updated Policy with the APRA standard CPS 510 and the BEAR and

recommended that the Board formally adopt the Remuneration Policy;

- reviewed progress of the implementation of the Sedgwick recommendations;
- reviewed and approved remuneration structures for APs in accordance with BEAR variable pay deferral requirements;
- considered remuneration recommendations, including the quantum of fixed and variable pay for employees of the Bank;
- approved the remuneration recommendation for the HBAU interim Chief Executive Officer and their executive direct reports;
- reviewed application of consequence management adjustments to remuneration; and
- attested to the Chair of the Regional (HBAP) Remuneration Committee that the Sub-Committee met all responsibilities as set out in the Terms of Reference.

No Executive Directors or Senior Managers of the Bank were involved in discussions pertaining to their own remuneration.

The Sub-Committee did not obtain advice from external remuneration consultants for the year ended 31 December 2019.

### *Members of the Sub-Committee on Remuneration*

Three independent non-executive directors ("NEDs") served as members of the Sub-Committee for all or part of the 2019 year. They were Graham Bradley (Chair), Carol Austin and Jann Skinner. Directors of the Board Matthew Lobner, Geoff Wilson, Grant King, Kenneth Ng, Martin Tricaud and Noel McNamara were attendees at Sub-Committee meetings through 2019.

Sub-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. HSBC believes 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 approved by the Group Remuneration Committee and adopted subject to annual review. The 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;
- compliance with relevant regulation.

## 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 and annual discretionary bonuses designed to reward performance.

Variable awards 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 or Accountable Persons under BEAR?); 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 at a Group and local country level. The Finance function validates the achievement of relevant financial metrics.

## Deferral of Variable Pay

HSBC 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;
- remuneration of KMP is consistent with effective risk management; and

- variable pay is designed and administered in a way which complies with the requirements of the PRA and APRA.

the deferred restricted shares and cash are released over the applicable vesting period for Senior Managers, MRT and APs according to the applicable regulation.

The deferral of variable pay ties recipients to the future performance of the Group. Subject to malus provisions,

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

	Senior Managers	Material Risk-Takers	Accountable Persons
<b>Award Threshold</b>	USD 75,000	<ul style="list-style-type: none"> <li>➤ Total Compensation at least GBP 500,000; OR</li> <li>➤ Variable award is more than 33% of total compensation</li> </ul>	AUD 125,000
<b>% Deferral</b>	Sliding scale from 10% of award over USD 75,000 to 50% of award over USD 1,000,000	<ul style="list-style-type: none"> <li>➤ 40% on awards up to GBP 500,000*;</li> <li>➤ 60% on awards above GBP 500,000</li> </ul>	
<b>Vehicle</b>	Restricted Shares (RSUs)	50% RSUs/50% Cash	
<b>Vesting</b>	3 years (year 1: 33%, year 2: 33%, year 3: 34%)**		100% after 3 years for RSUs and 100% after 4 years for Cash
<b>Retention post vesting (RSUs)</b>	No	Up to a period of one year	

*\*For Accountable Persons, where total amount to be deferred is less than AUD 50,000, no variable pay deferral is required.*

*\*\*Those MRTs identified as Risk Managers under the Group MRT definition are subject to deferral of 5 years vesting in 5 equal instalments. In 2019, no MRT in Australia were designated as a "Risk Manager", however one Senior Manager has been subject to the Risk Manager deferral schedule in prior performance years.*

## Linking Pay and Performance

Objectives are determined at Group level and cascaded throughout the Group to individuals, thereby driving an aligned set of objectives. Objectives include both financial and non-financial metrics according to the nature of the role performed. The total variable pay earned by an individual is dependent on the achievement of the individual's objectives. 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. The design of the remuneration structure focusses

individuals on the achievement of the short and long term objectives of the Bank and the Group and seeks to ensure that outcomes are reflective of actual performance against these objectives. HSBC's values and behaviours, in addition to performance metrics, 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 pools are set 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 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 meetings. This ensures that the variable pay pool and executive pay recommendations are shaped by risk considerations and any Group-wide notable events. There is similar cross membership and governance

structure for HBAP Risk and Remuneration Committees and the HBAU Risk Committee and Remuneration Sub-Committee.

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 relative performance then inform the final size of the Australian variable pay pool.

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 for identifying and mitigating risks and for ensuring 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 the 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"<sup>1</sup>; 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

---

<sup>1</sup> 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.

actions including variable pay award adjustments, both positive and negative.

### 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, 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 Sub-Committee reviewed and approved fixed and variable pay recommendations for the 2019 performance year at the December 2019 meeting.

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 2019 are summarised in the table following:

### Type of Variable Payment

### Awarded in 2019

Performance-based variable pay	Yes – to 14 active (as at 31 Dec) Senior Managers and MRTs*
Guaranteed Bonuses/Sign-on Bonuses	No
Severance payments**	\$764,000 awarded to two departing employees in 2019

\*Details of the 2019 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 2019, accounting for executive movements throughout the year.

Table II provides details of outstanding deferred remuneration for MRTs and Senior Managers as at 31 December 2019. Total outstanding deferred remuneration includes adjustments made as a result of ex-post implicit adjustments<sup>2</sup>.

<sup>2</sup> Ex-post implicit adjustments reflect share price fluctuations between 1 January 2019 and 31 December 2019

**Table I**

	31 December 2019		31 December 2018	
<b>Remuneration Item</b>	<b>Senior Managers<sup>3</sup> \$'000</b>	<b>Material Risk-Takers<sup>4</sup> \$'000</b>	<b>Senior Managers<sup>5</sup> \$'000</b>	<b>Material Risk-Takers<sup>6</sup> \$'000</b>
<b>Fixed Remuneration</b>				
Fixed base salary (Non Deferred) <sup>7</sup>	3,451	3,381	3,390	3,990
Other (Non Deferred) <sup>8</sup>	690	891	273	643
<b>Variable Pay</b>				
Cash (Non- deferred) <sup>9</sup>	808	1,029	2,230	1,269
Cash (Deferred)	258	804	0	846
Restricted shares (Non-deferred)	376	1,029	0	1,269
Restricted shares (Deferred) <sup>10</sup>	320	907	389	846
Vested restricted shares <sup>11</sup>	211	670	362	2,198
Vested deferred cash	35	747	20	705

**Table II**

	31 December 2019		31 December 2018	
<b>Remuneration Item</b>	<b>Senior Managers<sup>3</sup> \$'000</b>	<b>Material Risk-Takers<sup>4</sup> \$'000</b>	<b>Senior Managers<sup>5</sup> \$'000</b>	<b>Material Risk-Takers<sup>6</sup> \$'000</b>
<b>Outstanding Remuneration</b>				
Cash	126	1,611	214	1,365
<b>Share Based Rewards</b>				
Share and share linked awards <sup>11</sup>	642	1,783	509	1,967

<sup>3</sup>Includes 10 Senior Managers and excludes 5 that are also considered as MRTs.

<sup>4</sup>Includes 2 MRTs and the 5 Senior Managers also considered as MRTs.

<sup>5</sup> Includes 13 Senior Managers and excludes 5 that were also considered as MRTs.

<sup>6</sup> Includes 2 MRTs and the 5 Senior Managers that were also considered as MRTs.

<sup>7</sup> Includes base salary, fixed pay allowances, superannuation and all items packaged as part of salary. Totals incorporate impacts of 2 departures and 1 international transfer and pay rate changes throughout the year

<sup>8</sup> Includes non-salaried items such as car parking costs and associated fringe benefits tax and excludes any allowances that are included in fixed base salary. Termination payments for 2 departures included in totals.

<sup>9</sup> Cash portion of variable pay that is not subject to retention.

<sup>10</sup>Values are at the face value with the share price and FX rate as at the time of vesting.

<sup>11</sup> Values are at the face value with the share price and FX rate as at 31 December 2019 reporting date.