

Pillar 3 Annual Remuneration Disclosures at 31 December 2020

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 (July 2018) standard.

Qualitative information contained in this disclosure 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: Senior managers of HBAU. Effectively, this group covers the Australian Chief Executive Officer and their executive direct reports (members of the HBAU Executive Committee).

Material Risk-Takers (MRTs): executives/senior managers whose activities can materially affect the financial soundness of HBAU or a substantial part thereof. Under the provisions of the UK Prudential Regulation Authority's ('PRA') Remuneration Rules, HSBC is required to identify individuals who will be considered as 'Identified Staff and Material Risk Takers' (collectively referred to as 'Material Risk Takers' or 'MRTs') based on the qualitative and quantitative criteria specified in the Regulatory Technical Standard ('RTS') issued by the European Banking Authority ('EBA').

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

During 2020, the Bank had 12 executives identified as Senior Managers and eight identified as MRT for all or part of the year. Six executives were considered to be both Senior Managers and MRTs.

Eight Senior Managers and six MRT were also identified as Accountable Persons (APs) under the Banking Executive Accountability Regime (BEAR).

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 responsible for setting the principles, parameters and governance framework for the Group remuneration policy applicable to all Group employees. The 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 Board 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 framework.

The Remuneration Policy was reviewed in 2020, with no changes made.

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 Key Management Personnel (KMP)¹ 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 five times in 2020. During 2020, the Sub-Committee or Board:

- undertook a review of Remuneration Policy effectiveness with regards to the outcomes of the PY19 Pay Review;
- reviewed the Remuneration Policy of the Bank and confirmed the ongoing compliance of the Policy with the APRA standard CPS 510 and the BEAR;
- reviewed progress of the implementation of the Sedgwick recommendations and changes to the Retail Banking Incentive Framework (RBIF);
- reviewed and adopted the updated Committee Terms of Reference (ToR);
- received reporting on gender pay positioning;
- received updates on the progress of external regulatory developments (e.g. CPS 511);
- received reporting on PY20 year-end performance management outcomes; and
- received reporting on the PY20 Annual Pay Review preparation and project plan.

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 2020.

Members of the Sub-Committee on Remuneration

Five independent non-executive directors ("NEDs") served as members of the Sub-Committee for all or part of the 2020 year. They were Graham Bradley (Chair January - September), Grant King (Chair October - December), Carol Austin, Jann Skinner and Geoff Wilson. Directors of the Board - Matthew Lobner, Kaber Mclean and Kenneth Ng as well as Noel McNamara were attendees at Sub-Committee meetings throughout 2020.

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

Remuneration Strategy

HBAU's remuneration strategy is derived from the Group performance and pay strategy which is underpinned by the Group Remuneration Framework. Our strategy is designed to reward competitively the achievement of long-term sustainable performance, and to attract, motivate and retain the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience. We believe that

¹ Key Management Personnel includes HBAU's CEO; any direct report of the CEO; any Group MRT; and any other person specified by APRA from time to time

remuneration is an important tool for instilling the right behaviours, and driving and encouraging actions that are aligned to organisational values and the long-term interests of our stakeholders. The strategy supports our people to perform their roles to support our strategic priorities and long-term interests of our stakeholders, which includes the customers and communities we serve, our shareholders and regulators. We maintain key principles that underpin the performance and pay decisions for our workforce, as outlined below. These principles were crucial to the approach we took in response to Covid-19 to adequately support and recognise our employees and ensure they were treated fairly.

The HBAU remuneration strategy is approved by the Group Remuneration Committee following approval by the HBAU Board. The strategy is based on the following principles:

- Ensuring that the assessments completed by managers are fair, appropriate and free from bias; Managers are encouraged to challenge and communicate with peers, and analytical reviews are undertaken to identify any bias;
- An alignment of performance considerations at all levels (individual, business and Group) 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 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;
- Considering the full-market range when making pay decisions for employees, taking into account the individual's and the Group's performance in any given year. An individual's pay will vary depending upon their performance;
- Supporting a culture of continuous feedback through manager and employee empowerment and creating a culture where employees can fulfil their potential, gain new skills and develop their careers for the future; and
- Compliance with relevant regulation across all of our countries and territories.

Remuneration Framework

HBAU's remuneration framework enables delivery of the remuneration strategy. Our approach to determining remuneration is based on the following objectives:

- Offering our employees a competitive total reward package. This includes market competitive fixed pay levels;
- Maintaining an appropriate balance between fixed pay, variable pay and employee benefits, taking into consideration an employee's seniority, role, individual performance and the market;
- Ensuring variable pay is awarded on a discretionary basis and dependent upon Group, global business and individual performance in line with overall Group affordability;
- Promoting consideration and appropriate management of all types of risk, ensuring that negative risk behaviours are discouraged and positive behaviours supported by the performance management and employee conduct frameworks and, where appropriate, proportionate impact on variable pay;
- Offering employee benefits that support the mental, physical and financial health of a diverse workforce, are 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;
- Linking reward packages to performance and behavior with no bias towards an individual's ethnicity, gender, age, or any other characteristic;
- Providing career planning tools to help employees thinking about future roles and capability they require, and empowering managers to make appropriate decisions at key stages during the pay review process; 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 annual short term incentives designed to reward performance. Variable pay is awarded on a discretionary basis to all employees. There are no formulaic linkages between achievement of any specific objective and variable pay award.

Variable awards may be made as cash (deferred or immediate), or shares (deferred or immediate). The composition and mode of delivery of an individual'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 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 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 over the applicable vesting period for Senior Managers, MRT and APs according to the applicable regulation.

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

	Senior Managers	Material Risk-Takers	Accountable Persons
Award Threshold	USD 75,000	<ul style="list-style-type: none"> ➤ Total Compensation at least GBP 500,000; OR ➤ Variable award is more than 33% of total compensation 	AUD 125,000
% Deferral	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"> ➤ 40% on awards up to GBP 500,000*; ➤ 60% on awards above GBP 500,000 	
Vehicle	Restricted Shares (RSUs)	50% RSUs/50% Cash	
Vesting	3 years (year 1: 33%, year 2: 33%, year 3: 34%)**		100% after 3 years for RSUs and 100% after 4 years for Cash
Retention post vesting (RSUs)	No	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 2020, no MRT in Australia were subject to Risk Manager deferral requirements, however one MRT has been subject to the Risk Manager deferral schedule in prior performance years.

Adjustment of Deferred Remuneration

Deferred remuneration is subject to adjustment both before (malus) and after (clawback) vesting to account for longer term performance outcomes. The Group Malus Policy and Group Clawback Policy govern the application of these remuneration actions.

Malus will be applied to all or part of unvested variable pay awards where:

- the conduct of the employee or the team in which the employee works or has worked, or the business unit of which the employee is a part, is considered detrimental or brings the business into disrepute or which resulted in significant loss(es) to any member of the Group, or to the Group as a whole; or
- evidence comes to light that past performance which was taken into account when deciding relevant bonus pools from which variable pay awards were made to the employee was materially worse than was understood; or
- the financial statements of any member of the Group or any business unit or division of any member of the Group are materially restated, corrected or amended; or
- evidence arises that the employee or the employee's business unit or division has engaged in improper or inadequate risk management or has failed to raise concerns in relation to improper or inadequate risk management, taking into account the proximity of the employee to the failure of risk management in question and the level of the employee's responsibility; or
- the employee failed to meet appropriate standards of fitness and propriety; or
- any member of the Group is in receipt of a valid Reduction Notice from a previous firm requiring the operation of malus in respect of any variable pay award which is subject to the PRA Buyout Rule (a Buyout Malus Adjustment); and/or
- any other circumstances required by local regulatory obligations to which any member of the Group or business unit is subject.

Clawback will be applied to all or part of vested variable pay awards where:

- the individual participated in or was responsible for conduct which resulted in significant loss(es) to any member of the Group, or to the Group as a whole; or

- the individual failed to meet appropriate standards of fitness and propriety; or
- there is reasonable evidence of misconduct or material error that would justify, or would have justified, had the individual still been employed, summary termination of their contract of employment; or
- any member of the Group, or a business unit, suffers a material failure of risk management by reference to Group risk management standards, policies and procedures, taking into account the proximity of the individual to the failure of risk management in question and the level of the individual's responsibility; or
- any member of the Group is in receipt of a valid Reduction Notice from a previous firm requiring the operation of clawback in respect of any award which is subject to the PRA Buyout Rule (a Buyout Clawback Adjustment); and/or
- any other circumstances required by local regulatory obligations to which any member of the Group or business unit is subject.

All variable pay awards are subject to a combination of malus and clawback for a period of at least seven years, and up to 10 years from the date of grant.

The HBAU Sub-Committee will make a recommendation to the Group RemCo for the application of malus or clawback. The Group RemCo has the absolute discretion to apply malus or clawback to all or part of deferred remuneration variable pay awards.

Linking Pay and Performance

Objectives are determined at Group level and cascaded throughout the Group to individuals, thereby driving an aligned set of objectives at all levels. 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.

Overall 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.

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.

HSBC's discretionary pay scheme design affords the Bank flexibility in adjusting variable pay in line with overall performance outcomes as pools are formed on a "top-down" basis with final approval from the Group RemCo and not via a formulaic "bottom-up" approach. Weak performance against targets will result in a smaller Group variable pay pool for distribution to regions and countries. On an individual level, the interplay between the performance management process (including calibration of ratings to ensure fairness and relativity in outcomes across peers and teams) and remuneration decisions allows for individual variable pay awards to be adjusted downwards if performance and behavioural outcomes are poor.

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 to 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 are prepared to take in executing their strategy. Risk appetite is expressed in terms of diverse quantitative and qualitative risk dimensions. Risks themes considered include:

- Initiation and execution risk
- Third-party risk
- Model risk
- Data governance and privacy
- Retail credit risk
- Contractual risk
- Fraud risk
- Resilience risk

Risks included in the RAS, as well as risk appetites and positions, evolve regularly in line with market, legislative and regulatory developments to drive comprehensive risk management. In 2020, COVID-19 was added as a key risk theme for monitoring with a focus on credit and strategic risks for HBAU as well as care and servicing of customers and considerations of implications for employees.

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 at 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 a similar cross membership and governance structure for HBAP Risk and Remuneration

Committees and the HBAU Risk Committee and Remuneration Sub-Committee.

At the individual level, all employees have non-financial risk objectives within their 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.

Risk performance influences remuneration outcomes at Group, regional, country and individual levels. The final Group variable pay pool is calculated at the Group level and set with reference to multiple risk factors, including conduct (fines, penalties, customer redress), emerging conduct risk and Risk map outcomes (incorporating risks outlined previously). The final Group pool is cascaded to regions and onwards to the country level based on relative strategic and financial performance, overlaid with risk performance. Locally, the Sub-Committee receives detailed reporting from the CRO through a Risk Event Framework which outlines risk themes (top and emerging), significant breaches and issues to determine that the final variable pay pool for HBAU overall and for Senior Managers and MRTs individually are appropriate. Where applicable, in line with risk performance, the Sub-Committee will escalate concerns over total variable pay pools or individual variable pay outcomes to the HBAP RemCo and Group RemCo.

Individual variable pay awards are determined on a discretionary (not formulaic) basis according to an

overall assessment of an individual's performance against set objectives, including risk performance. In addition to measuring 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 each employee, which acts as a "gate opener" and 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.

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 against 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.

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.

3. QUANTITATIVE DISCLOSURES

Sub-Committee Member Remuneration

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 Sub-Committee reviewed and approved fixed and variable pay recommendations for the 2020 performance year at the February 2021 meeting.

The type and award of variable payments to Senior Managers and MRTs in 2020 are summarised in the table following:

Type of Variable Payment	Awarded in 2020
Performance-based variable pay	Yes – to 18 active (as at 31 Dec) Senior Managers and MRTs ³
Guaranteed Bonuses/Sign-on Bonuses	None
Severance payments ⁴	\$479,454 awarded to three departing employees in 2020

Quantitative Tables

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

Table 1 provides details on the aggregate fixed pay and variable pay for MRTs and Senior Managers pertaining to the performance year ended 31 December 2020, accounting for executive movements throughout the year.

Table 2 provides details of deferred remuneration for MRTs and Senior Managers, including:

1. total vested during the performance year to 31 December 2020; and
2. total outstanding deferred remuneration exposed to ex post explicit and/or implicit adjustments⁵ as at 31 December 2020.

³ Details of the 2020 variable pay allocations are outlined in Table 1

⁴ Severance payments are included in totals reported in Table 1

⁵ Ex-post implicit adjustments reflect share price fluctuations between 1 January 2020 and 31 December 2020 and ex-post explicit adjustments reflect malus, clawback or similar reversals/downward revaluations of awards

Table 1 - Total value of remuneration for the financial year ended 31 December 2020

Remuneration Item	Senior Manager ⁶ ('000)		Material Risk-Takers ⁷ ('000)	
	Unrestricted	Deferred	Unrestricted	Deferred
Fixed Remuneration				
Cash-based ⁸	2,924	<i>n/a</i>	5,008	<i>n/a</i>
Shares and share-linked instruments	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Other ⁹	658	<i>n/a</i>	266	<i>n/a</i>
Variable Remuneration				
Cash-based	720	151	1,235	823
Shares and share-linked instruments	226	209	1,235	956
Other	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>

Table 2 - Total vested and outstanding remuneration as at 31 December 2020

Remuneration Item	Senior Managers ('000)	Material Risk-Takers ('000)
Vested Remuneration¹⁰		
Cash-based	-	641
Shares and share-linked instruments	330	1,830
Outstanding Deferred and Retained Remuneration¹¹		
Cash-based	168	1,852
Shares and share-linked instruments	486	1,377
Total reductions during year		
due to ex-post explicit adjustments ¹²	-	-
due to ex-post implicit adjustments ¹³	(230)	(1,209)

⁶ Includes 12 Senior Managers and excludes 6 who are also considered as MRTs.

⁷ Includes 2 MRTs and the 6 Senior Managers also considered as MRTs.

⁸ Includes base salary, fixed pay allowances, superannuation and all items packaged as part of salary. Total in corporate pay rate changes throughout the year and the impact of 2 departures, 2 outbound international transfers and 3 inbound international transfers.

⁹ Includes non-salaried items such as car parking costs, subsidised health insurance and associated fringe benefits tax and excludes any allowances that are included in fixed base salary. Termination payments for 2 departures and 1 outbound international transfer included in totals.

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

¹¹ Total amount of outstanding deferred/retained remuneration exposed to ex-post explicit and/or implicit adjustments. Values are face value with the share price and FX rate as at 31 December 2020 reporting date.

¹² Adjustments as a result of malus, clawback or other reversals or downward revaluation of awards.

¹³ Adjustments attributed to share price fluctuations between 1 January 2020 and 31 December 2020.