

HSBC Bank Australia Ltd

Pillar 3 Disclosures

31 December 2013

Consolidated Basis



HSBC 

Basel II Pillar 3 – Capital Adequacy and Risk Disclosures as at 31 December 2013

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1. Introduction

Purpose

The Basel regulatory regime is based around three "Pillars"; Pillar 1, minimum capital requirements, Pillar 2, supervisory review and Pillar 3, market discipline.

Its aim is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess certain specified information on the scope of application of the Basel prudential framework, capital, particular risk exposures, risk assessment processes, and hence the capital adequacy of the institution.

Background

Capital is a cornerstone of an authorised deposit-taking institution's (ADI) strength. It provides a buffer to absorb unanticipated losses from an ADI's activities and, in the event of unforeseen events, enables the ADI to continue operating while those issues are addressed or resolved. In June 2004, the Basel Committee on Banking Supervision introduced a new capital adequacy framework to replace the 1988 Basel Capital Accord in the form of a new Accord (commonly known as 'Basel II').

The capital adequacy framework under the Basel II regime, implemented since 1 January 2008 in Australia, seeks to promote regulatory capital requirements that are more comprehensive and sensitive to risk and therefore, more aligned to the risk appetites of individual banks.

The supervisory objectives of Basel II are to promote safety and soundness in the financial system and maintain an appropriate level of capital in the system, enhance competitive equality, and establish a more comprehensive approach to addressing risks. The application of Pillar 3 aims to enhance transparency in Australian financial markets by setting minimum requirements for the public disclosure of information on the capital adequacy of locally incorporated ADIs.

As outlined in Australian Prudential Standard (APS) 330, the Australian Prudential Regulation Authority (APRA) has adopted a proportional approach to Pillar 3 to ensure disclosure of information by banks is appropriate to the nature, scope and complexity of their activities, distinguishing clearly between banks adopting the Basel II Advanced Approaches and those adopting the Standardised Approach.

Introduction of Basel III capital reforms effective from 1 January 2013 are designed to further strengthen capital requirements with the aim of promoting a more resilient banking sector and its ability to absorb severe losses. Existing capital instruments which do not meet the new Basel III capital eligibility criteria as detailed in Prudential Standard APS 111 must be de-recognised from 1st January 2013 or be formally approved by APRA to allow the application of transitional arrangements.

To view the main features of the current regulatory capital instruments please refer to the Regulatory Disclosures tab using the following link:

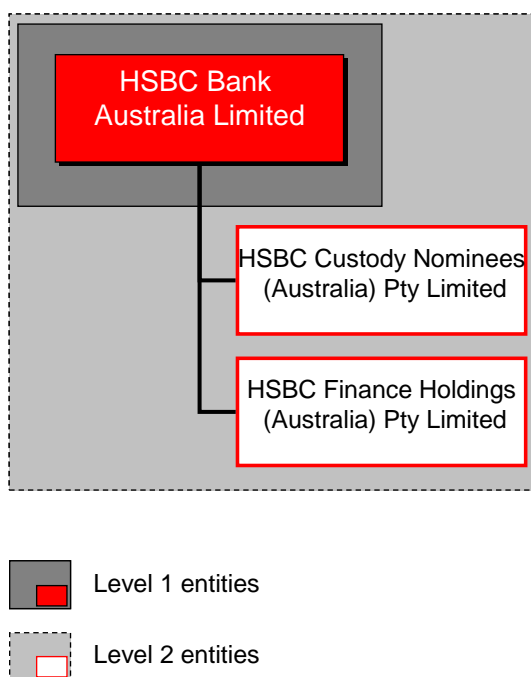
<https://www.hsbc.com.au/1/2/about/local/financial-information/regulatory>

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2. Scope of Application

For regulatory (APRA) reporting purposes, HSBC Bank Australia Limited (HBAU) establishes two levels of reporting; Level one, which is HSBC Bank Australia Limited only, and Level two, which is the consolidation of HSBC Bank Australia Limited and all its financial subsidiaries.

The Pillar 3 disclosures are based on Level 2 - Consolidated basis.



3. Verification

The Pillar 3 Disclosures have been appropriately verified internally but have not been audited by the external auditor.

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4. HBAU Context

HSBC is one of the world's largest banking and financial services organisations and therefore deals with multiple regulators in multiple jurisdictions around the world. HSBC Holdings plc, regulated by the Prudential Regulation Authority (PRA) in the UK, operates under the Advanced Internal Ratings Based Approach (IRB-A) for the majority of its Credit risk, the Standardised Approach for Operational risk and a mix of the Internal Models Approach and the Standardised Approach for Market risk (since 1 January 2008).

The Hongkong and Shanghai Banking Corporation Limited (HBAP), regulated by the Hong Kong Monetary Authority (HKMA) in Hong Kong, has adopted the IRB-A approach for Credit risk, the Standardised approach for Operational risk and both the Internal Models and Standardised approach for Market risk as of 1 January 2009.

HBAU has adopted the APRA Standardised approach to Credit, Market and Operational risk as of 1 January 2008.

Regulator	Institution	Credit risk	Operational risk	Market risk
APRA	HBAU	STD	STD (ASA)	STD
HKMA	HBAP	IRB-A	STD	IMA/STD
PRA	HSBC Holdings plc	IRB-A	STD	IMA/STD

IRB-A	=	Internal Ratings Based – Advanced approach for Credit risk
IMA	=	Internal Models Approach for Market risk
VAR	=	Value at Risk for Market Risk
STD	=	Standardised approach for either Credit, Market or Operational risk
STD (ASA)	=	Standardised approach (Alternative Standardised Approach) for Operational risk

5. Frequency

This report will be released on a quarterly basis, comprising Capital Adequacy disclosures (Table 3) and Credit Risk and Securitisation exposures (Tables 4 and 5).

The Regulatory Capital Composition and Reconciliation (Table 1) and Remuneration disclosures (Table 18) will be published annually as at the 31st December balance sheet date and are available on the HSBC website link:

<https://www.hsbc.com.au/1/2/about/local/financial-information/regulatory>

The main features of the current regulatory capital instruments (Table 2) are published at the following website link:

<https://www.hsbc.com.au/1/2/about/local/financial-information/regulatory>

6. Enquiries

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Risk Definitions

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending and trade finance, but also from off-balance sheet exposures such as market and non-market related transactions, and from HBAU's holdings of debt securities. Among the risks HBAU engages in, credit risk generates the largest regulatory capital requirement.

Market risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates, commodity prices, interest rates, credit spreads and equity prices, will reduce HBAU's income or the value of its portfolios. HBAU separates exposures to market risk into trading and non-trading portfolios. Trading portfolios include those positions arising from market-making, proprietary position-taking and other marked-to-market positions so designated. Non-trading portfolios primarily arise from the interest rate management of HBAU's retail and commercial banking assets and liabilities and financial investments classified as available-for-sale and held-to-maturity.

Operational risk

Operational risk is the risk of loss arising through fraud, unauthorised activities, errors, omissions, inefficiencies, systems failures or from external events. It is inherent in every business organization and covers a wide spectrum of issues. The terms error, omission and inefficiency include process failures, systems/machine failures and human error.

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Table 3 - Capital Adequacy (Consolidated)

All figures in AUDm

	December 2013	September 2013
Capital requirements (in terms of risk weighted assets) for credit risk by portfolio		
• Corporate	6,270	5,958
• Government	-	-
• Bank	1,091	1,181
• Residential Mortgage	4,195	4,100
• Other Retail	1,322	1,292
• All Other	108	136
Risk weighted assets – Credit risk excluding securitisation	12,986	12,667
• Securitisation	-	-
Total credit risk weighted assets	12,986	12,667
Capital requirements (in terms of risk weighted assets) for Market risk	40	37
Capital requirements (in terms of risk weighted assets) for Operational risk	1,423	1,398
Total risk weighted assets	14,449	14,102
Capital Ratios	December 2013	September 2013
Total capital ratio for the consolidated banking group	11.2%	11.4%
Tier 1 capital ratio for the consolidated banking group	9.2%	9.4%
Common Equity Tier 1 capital ratio for the consolidated banking group	9.2%	9.4%

Basel II Pillar 3 – Capital Adequacy and Risk Disclosures as at 31 December 2013

Credit Risk Management

The role of an independent credit control unit is fulfilled by the Global Risk function. Credit approval authorities are delegated by the Board to certain executive officers of HSBC Holdings. Similar credit approval authorities are delegated by the boards of subsidiary companies to executive officers of the relevant subsidiaries. In each major subsidiary, a Chief Risk Officer reports to the local Chief Executive Officer on credit-related issues, while maintaining a direct functional reporting line to the Group Chief Risk Officer in Global Risk. Details of the roles and responsibilities of the credit risk management function and the policies and procedures for managing credit risk are set out below. Apart from the creation of a new Group Models Oversight Committee and supportive framework, there were no significant changes in 2013.

- ▶ The high-level oversight and management of credit risk provided globally by the Credit Risk function in Global Risk
- ▶ to formulate Group credit policy. Compliance, subject to approved dispensations, is mandatory for all operating companies which must develop local credit policies consistent with Group policies;
- ▶ to guide operating companies on our appetite for credit risk exposure to specified market sectors, activities and banking products and controlling exposures to certain higher-risk sectors;
- ▶ to undertake an independent review and objective assessment of risk. Global Risk assesses all commercial non-bank credit facilities and exposures over designated limits, prior to the facilities being committed to customers or transactions being undertaken;
- ▶ to monitor the performance and management of portfolios across the Group;
- ▶ to control exposure to sovereign entities, banks and other financial institutions, as well as debt securities which are not held solely for the purpose of trading;
- ▶ to set Group policy on large credit exposures, ensuring that concentrations of exposure by counterparty, sector or geography do not become excessive in relation to our capital base, and remain within internal and regulatory limits;
- ▶ to control our cross-border exposures;
- ▶ to maintain and develop our risk rating framework and systems, the governance of which is under the general oversight of the Group Model Oversight Committee ('MOC'). The Group MOC meets bi-monthly and reports to the Risk Management Meeting. It is chaired by the risk function and its membership is drawn from Global Risk and global businesses;
- ▶ to report to the Risk Management Meeting, the GRC and the Board on high risk portfolios, risk concentrations, country limits and cross-border exposures, large impaired accounts, impairment allowances, stress testing results and recommendations and retail portfolio performance; and
- ▶ to act on behalf of HSBC Holdings as the primary interface, for credit-related issues, with the Bank of England, the PRA, local regulators, rating agencies, analysts and counterparts in major banks and non-bank financial institutions.

HSBC's consolidated entity operating in Australia is required to implement credit policies, procedures and lending guidelines which conform to HSBC Group standards, with credit approval authorities delegated from the Board of Directors of the consolidated entity to the Chief Executive Officer. The management of the consolidated entity includes a Chief Risk Officer who reports to the local Chief Executive Officer on credit related issues and has a functional reporting line to the HBAP Chief Risk Officer for the Asia Pacific Region. The consolidated entity is responsible for the quality and performance of its credit portfolios and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval by global risk management. This includes managing its own risk concentrations by market sector, geography and product. Local systems are in place to enable the consolidated entity to control and monitor exposures by customer and retail product segments.

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Table 4(a) – Credit Risk by Gross Credit Exposure (Consolidated)

All figures in AUDm

Exposure Type	December 2013		September 2013	
	Total gross credit risk exposures	Average gross exposure over the period	Total gross credit risk exposures	Average gross exposure over the period
• Cash and Liquid Assets	32	40	47	50
• Debt Securities	4,799	4,742	4,684	5,173
• Due from Other Financial Institutions	585	593	600	610
• Loans and Advances	16,698	16,270	15,841	15,523
• Derivatives	160	145	130	138
• Contingent Liabilities, Commitments and other Off-Balance Sheet Exposures	6,732	6,515	6,297	6,331
• Other Assets	360	361	362	379
Total Exposures	29,366	28,666	27,961	28,204
Portfolio Type	Total gross credit risk exposures	Average gross exposure over the period	Total gross credit risk exposures	Average gross exposure over the period
• Corporate	7,137	6,875	6,612	6,549
• Government	1,503	1,366	1,229	1,902
• Bank	7,671	7,512	7,353	7,212
• Residential Mortgage	11,558	11,419	11,279	11,035
• Other Retail	1,379	1,361	1,342	1,361
• All Other	118	133	146	145
Total Exposures	29,366	28,666	27,961	28,204

Note: Total exposures are based on local APRA definitions.

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Exposures

Impairment of loans and advances

It is the consolidated entity's policy that each operating company will recognise losses for impaired loans promptly where there is objective evidence that impairment of a loan or portfolio of loans has occurred. This is done on a consistent basis in accordance with the established Group guidelines. There are two basic methods of calculating impairment losses: those calculated on individual loans and those losses assessed on a collective basis.

- Individually assessed loans
 - ▶ impairment losses on individually assessed accounts are determined by an evaluation of the exposures on a case-by-case basis. The consolidated entity assesses at each balance sheet date whether there is any objective evidence that a loan is impaired. This procedure is applied to all accounts that are considered individually significant.
- Collectively assessed loans
 - ▶ in respect of losses which have been incurred but have not yet been identified on loans subject to individual assessment for impairment; and
 - ▶ for homogeneous groups of loans that are not considered individually significant.

Loan write-offs

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from the realisation of security have been received.

Reversals of impairment

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent it is now excessive by reducing the loan impairment allowance account. The amount of any reversal is recognised in the income statement.

Provisions for liabilities and charges

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the consolidated entity has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

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Table 4b – Credit risk (Consolidated)

All figures in AUDm

Financial Position

Portfolios subject to Standardised approach	December 2013			
	Impaired Loans ²	Restructured Loans ³	Past due loans >90 days ¹	Provisions ¹
• Corporate	167.8	29.4	-	84.2
• Government	-	-	-	-
• Bank	15.9	-	-	14.4
• Residential Mortgage	1.6	-	56.0	0.2
• Other Retail	0.2	-	19.5	23.7
• All Other	-	-	-	-
Sub Total	185.5	29.4	75.5	122.4
Collective provision				29.2
Total Provisions				151.6

Portfolios subject to Standardised approach	September 2013			
	Impaired Loans ²	Restructured Loans ³	Past due loans >90 days ¹	Provisions ¹
• Corporate	132.7	-	-	84.5
• Government	-	-	-	-
• Bank	15.3	-	-	13.0
• Residential Mortgage	2.8	-	53.2	0.1
• Other Retail	0.1	-	19.8	22.3
• All Other	-	-	-	-
Sub Total	150.9	-	73.0	119.9
Collective provision				29.8
Total Provisions				149.7

¹ Includes Individually and Portfolio Managed Facilities.

² Net increase in Dec 2013 quarter is principally due to new delinquent loans related to distinct corporate relationships, all fully servicing to date. A specific provision of AUD4.9m was raised on aggregate exposure of AUD31m although the entities concerned are not experiencing any operational or financial distress to date.

³ Two corporate borrowers with exposure totalling AUD29.4m have been downgraded and designated as "restructured" due to cash flow difficulties causing breach of covenants.

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All figures in AUDm

Financial Performance

Portfolios subject to Standardised approach ¹	December 2013			
	Charges for Provisions	Write offs	Recoveries	Total
• Corporate	43.3	0.0	(48.7)	(5.4)
• Government	-	-	-	-
• Bank	0.8	-	-	0.8
• Residential Mortgage	0.8	-	(1.9)	(1.1)
• Other Retail	1.6	68.4	(16.6)	53.4
• All Other	-	-	-	-
Sub Total	46.5	68.4	(67.2)	47.7
Movement in collective provision (not included above)	1.1	-	-	1.1
Total loan impairment charges and other movement in credit risk provisions	47.6	68.4	(67.2)	48.8

¹ Year-to-Date figures.

Portfolios subject to Standardised approach ¹	September 2013			
	Charges for Provisions	Write offs	Recoveries	Total
• Corporate	38.2	-	(44.2)	(6.0)
• Government	-	-	-	-
• Bank	-	-	-	-
• Residential Mortgage	0.6	-	(1.8)	(1.2)
• Other Retail	(0.2)	52.9	(12.0)	40.7
• All Other	-	-	-	-
Sub Total	38.6	52.9	(58.0)	33.5
Movement in collective provision (not included above)	1.7	-	-	1.7
Total loan impairment charges and other movement in credit risk provisions	40.3	52.9	(58.0)	35.2

¹ Year-to-Date figures.

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Table 4 (c) - General Reserve for Credit Losses

The Bank maintains a level of General Reserves for Credit Losses, in addition to specific allowance, in order to absorb existing and potential future credit losses. A prudent level of General Reserves is dependent on the credit profile and business circumstances at the time and is compiled on the basis of expected losses on all exposures across the various risk portfolios.

The General Reserve consists of eligible Collective Impairment Provisions (CIP) raised under AIFRS, and Portfolio provisions. Any shortfall in the level of the General Reserve for Credit Losses is deducted from retained earnings (Tier 1).

The General Reserve for Credit Losses is included in Tier 2 Capital.

All figures in AUDm

	December 2013	September 2013
General Reserve for Credit Losses	110.0	107.1

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Securitisation

HBAU undertakes the following securitisation related activity in the normal course of business:

- Securitisations of own originated residential mortgages for funding, contingent liquidity and potentially capital relief purposes. Such activity can potentially result in investment in any class of notes issued by the securitisation special purpose entity (SPE), provision of swaps to the SPE, provision of liquidity facilities and provision of Servicer and Trust Manager services to the SPE.
- Securitisation is examined as part of the wider funding planning of the Bank and within the context of the HSBC Group's limited appetite for wholesale funding.
- Provision of interest rate swaps to third party securitisations.

HBAU does not invest in notes issued by third party securitisations in either Trading or Balance Sheet Management books.

Table 5 – Securitisation Exposures

- No new securitisation or re-securitisation activity was undertaken during the December 2013 or September 2013 quarters relating to SPEs where the notes and receivables are owned by external parties.
- There were no new on-balance sheet securitisation exposures retained or purchased during the December 2013 or September 2013 quarters. This excludes originated securitisation exposures for contingent liquidity purposes where no capital relief is sought. In such instance loans are retained for regulatory capital and risk weighted in accordance to APS 112. HSBC Bank Australia Limited has no re-securitisation exposure currently or in the prior quarter.

All figures in AUDm

	December 2013	September 2013
Off Balance Sheet ¹	Exposure Amount	Exposure Amount
• Derivatives	0.4	0.6
• Other	-	-
Total Off Balance Sheet	0.4	0.6

¹ Credit equivalent value

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Appendix A - Composition of Capital APS 330 Attachment A

Capital disclosures detailed in the template below represent the post 1 January 2018 Basel III common disclosure requirements. HSBC Bank Australia Limited is applying the Basel III regulatory adjustments in full as implemented by APRA.

	31-Dec-13 Basel III	Reconciliation Table Reference	Reference to Regulatory Capital reconciliation
	AUD \$M		
Common Equity Tier 1 Capital: Instruments and Reserves			
1	Directly issued qualifying ordinary shares (and equivalent for mutually owned entities) capital	811.0	E1
2	Retained earnings	634.7	Table A E4
3	Accumulated other comprehensive income (and other reserves)	14.1	Table B E3
4	Directly issued capital subject to phase out from CET1 (only applicable to mutually owned companies)	-	
5	Ordinary share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
6	Common Equity Tier 1 Capital before regulatory adjustments	1,459.7	
Common Equity Tier 1 Capital: regulatory adjustments			
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	58.7	Table C
9	Other Intangibles other than mortgage servicing rights (net of related tax liability)	0.3	Table C
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash Flow Hedge Reserve	(1.3)	
12	Shortfall of provisions to expected losses	n/a	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	(1.7)	
15	Defined benefit superannuation fund net assets	-	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the ordinary shares of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	
20	Mortgage service rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the ordinary shares of financial entities	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments (rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i, 26j)	73.6	
26a	of which: treasury shares	-	
26b	of which: offset to dividends declared due to a dividend reinvestment plan (DRP), to the extent that the dividends are used to purchase new ordinary shares issued by the ADI	-	
26c	of which: deferred fee income	-	
26d	of which: equity investments in financial institutions not reported in rows 18, 19 and 23	-	
26e	of which: deferred tax assets not reported in rows 10, 21 and 25	73.6	A13
26f	of which: capitalised expenses	-	
26g	of which: investments in commercial (non-financial) entities that are deducted under APRA prudential requirements	-	
26h	of which: covered bonds in excess of asset cover in pools	-	
26i	of which: undercapitalisation of a non-consolidated subsidiary	-	
26j	of which: other national specific regulatory adjustments not reported in rows 26a to 26i	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	Total regulatory adjustments to Common Equity Tier 1	129.5	
29	Common Equity Tier 1 Capital (CET1)	1,330.2	
Additional Tier 1 Capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	Additional Tier 1 Capital before regulatory adjustments	-	
Additional Tier 1 Capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	National specific regulatory adjustments (rows 41a, 41b, 41c)	-	
41a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	-	
41b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidations not reported in rows 39 and 40	-	
41c	of which: other national specific regulatory adjustments not reported in rows 41a and 41b	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	Total regulatory adjustments to Additional Tier 1 Capital	-	
44	Additional Tier 1 Capital (AT1)	-	
45	Tier 1 Capital (T1=CET1+AT1)	1,330.2	

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Tier 2 Capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments	-	
47	Directly issued capital instruments subject to phase out from Tier 2	180.0	Table D
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
49	of which: instruments issued by subsidiaries subject to phase out -	-	
50	Provisions	110.0	Table E
51	Tier 2 Capital before regulatory adjustments	290.0	
Tier 2 Capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	
54	Investments in the Tier 2 Capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
55	Significant investments in the Tier 2 Capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	-	
56	National specific regulatory adjustments (rows 56a, 56b, 56c)	-	
56a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	-	
56b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidation not reported in rows 54 and 55	-	
56c	of which: other national specific regulatory adjustments not reported in rows 56a and 56b	-	
57	Total regulatory adjustments to Tier 2 Capital	-	
58	Tier 2 Capital (T2)	290.0	
59	Total Capital (TC=T1+T2)	1,620.2	
60	Total risk-weighted assets based on APRA standards	14,448.8	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	9.2%	
62	Tier 1 (as a percentage of risk-weighted assets)	9.2%	
63	Total Capital (as a percentage of risk-weighted assets)	11.2%	
64	Buffer requirement (minimum CET1 requirement of 4.5% plus capital conservation buffer of 2.5% plus any countercyclical buffer requirements, expressed as a percentage of risk-weighted assets)	7.0%	
65	of which: capital conservation buffer requirement	2.5%	
66	of which: ADI-specific countercyclical buffer requirements	0	
67	of which: G-SIB buffer requirement (not applicable)	n/a	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)	9.2%	
National minima (if different from Basel III)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	n/a	
70	National Tier 1 minimum ratio (if different from Basel III minimum)	n/a	
71	National total capital minimum ratio (if different from Basel III minimum)	n/a	
Amount below thresholds for deductions (not risk-weighted)			
72	Non-significant investments in the capital of other financial entities	-	
73	Significant investments in the ordinary shares of financial entities	-	
74	Mortgage servicing rights (net of related tax liability)	n/a	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	73.6	A13
Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	110.0	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	162.3	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	n/a	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	n/a	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	n/a	
82	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	n/a	
82	Current cap on AT1 instruments subject to phase out arrangements	n/a	
83	Amount excluded from AT1 instruments due to cap (excess over cap after redemptions and maturities)	n/a	
84	Current cap on T2 instruments subject to phase out arrangements	180.0	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

There are no entities included in the regulatory scope of consolidation which are excluded from the accounting scope consolidation.

Entities excluded from the regulatory scope of consolidation

	31-Dec-13	
	Total Assets \$M	Total Liabilities \$M
Securitisation special purpose vehicles		
Lion Series 2007-1 Trust	\$ 174.9	\$ 174.9

Principal activity:

Trust established for the purposes of raising funds via the issue of mortgage backed securities.

Trust currently qualifies for regulatory capital relief under APS 120 and is deconsolidated from level 2 regulatory group.

Basel II Pillar 3 – Capital Adequacy and Risk Disclosures as at 31 December 2013

Appendix B - Reconciliation between Detailed Capital Template and Regulatory Balance Sheet

	AUD \$M	Template reference
Table A		
Retained earnings		
Total per Balance Sheet	685.9	
Less increments in General Reserve for Credit Losses deducted from Retained earnings	(70.9)	
Add eligible deferred fee income recognised in regulatory capital	19.6	
Add Lion series 2007 securitisation - deconsolidation of impairment provisions	0.1	
Total Common Disclosure Template - Retained earnings	634.7	row 2
Table B		
Reserves		
Total per Balance Sheet	19.7	
Less share based payment reserve	(5.6)	
Total Common Disclosure Template - Other Comprehensive Income	14.1	row 3
Table C		
Goodwill and Other Intangibles		
Total per Balance Sheet	58.9	
Less capitalised software and other intangibles separately disclosed in template	(0.3)	
Total Common Disclosure Template - Goodwill	58.7	row 8
Other intangibles including capitalised software	0.3	
Less deferred tax liability associated with other intangibles	-	
Total Common Disclosure Template - Other Intangibles	0.3	row 9
Table D		
Tier 2 Capital Instruments		
Total per Balance Sheet	200.0	
Add capitalised issuance costs	-	
Less non eligible Tier 2 instruments	-	
Less amortisation of instruments	-	
Less Basel III transitional relief amortisation for directly issued instruments ¹	(20.0)	
Total Common Disclosure Template - Tier 2 Capital Instruments	180.0	row 47
¹ Basel III transitional arrangements apply to capital instruments not fully compliant with Basel III requirements.		
Table E		
Tier 2 Eligible Provisions		
Total per Balance Sheet	52.9	
Exclude non eligible provision per APS 220	(13.8)	
Add increments in General Reserve for Credit Losses deducted from retained earnings	70.9	
Total Common Disclosure Template - Tier 2 Eligible Provisions	110.0	row 50

Basel II Pillar 3 – Capital Adequacy and Risk Disclosures as at 31 December 2013

Appendix C - Regulatory Capital Reconciliation

The following table disclosure relates to the consolidated balance sheet of HSBC Bank Australia Limited and its subsidiaries, as published in its audited 31 December 2013 financial statements, and the balance sheet under level 2 regulatory scope of consolidation per APS 111.

	Group Balance Sheet	Adjustments	Level 2 Regulatory Balance Sheet	Reconciliation Table, Common Disclosure Reference
Assets				
A1 Cash and liquid assets	473.3	2,982.5	3,455.8	
A2 Receivables due from other financial institutions	229.4	(96.3)	133.1	
A3 Trading Securities	-	-	-	
A4 Derivative assets	75.7	-	75.7	
A5 Investment securities	3,975.0	824.0	4,799.0	
A6 Loans, bills discounted and other receivables	17,412.0	(844.5)	16,567.5	
A8 Investment in regulatory non consolidated subsidiaries	-	-	-	
A10 Property, plant and equipment	20.5	(0.1)	20.4	
A11 Investment in associates	-	-	-	
A12 Intangible assets	58.9	(0.2)	58.7	row 8, Table C
A13 Deferred tax assets	73.6	-	73.6	row 26e
A14 Other assets	3,516.2	(3,113.8)	402.4	
<i>of which : other intangibles</i>			0.3	row 9, Table C
Total Assets	25,834.6	(248.4)	25,586.2	
Liabilities				
L1 Deposits and other borrowings	21,657.2	1,034.5	22,691.7	
L2 Payables due to other financial institutions	324.7	376.1	700.8	
L3 Derivative liabilities	97.8	0.1	97.9	
L7 Provisions	120.2	(6.6)	113.6	
L9 Payables and other liabilities	1,918.1	(1,601.3)	316.8	
L10 Subordinated debt - at amortised cost	200.0	-	200.0	
<i>of which : included in Tier 2 capital post phase out amortisation</i>			180.0	row 47, Table D
Total Liabilities	24,318.0	(197.2)	24,120.8	
Net Assets	1,516.6	(51.2)	1,465.4	
Equity				
Share capital				
E1 Ordinary share capital	811.0	-	811.0	row 1
E2 Other equity instruments	-	-	-	
E3 Reserves	19.7	-	19.7	Table B
<i>of which : Available for sale reserve - gain/(loss)</i>			15.4	row 3
<i>of which : Cash flow hedge reserve - gain/(loss)</i>			(1.3)	row 3, row 11
E4 Retained earnings	685.9	(51.2)	634.7	row2, Table A
Total Equity	1,516.6	(51.2)	1,465.4	