

HSBC Bank Australia Limited

**Pillar 3 Disclosures at 30 September 2018
Consolidated Basis**

Contents

	Page
Introduction	2
Purpose	2
Scope of application	2
Verification	2
HBAU context	2
Frequency	2
Enquiries	2
Capital	3
Credit risk	3
General reserve for credit losses (GRCL)	4
Securitisation	4
Securitisation exposures	4
Liquidity Coverage Ratio Disclosure	5

Tables

		Page
3	Capital adequacy (consolidated)	3
4(A)	Credit risk by gross credit exposure	3
4(B)	Credit risk (consolidated)	4
4(C)	General reserve for credit losses	4
5	Securitisation exposures	4
20	Liquidity Coverage Ratio Disclosure	6

Introduction

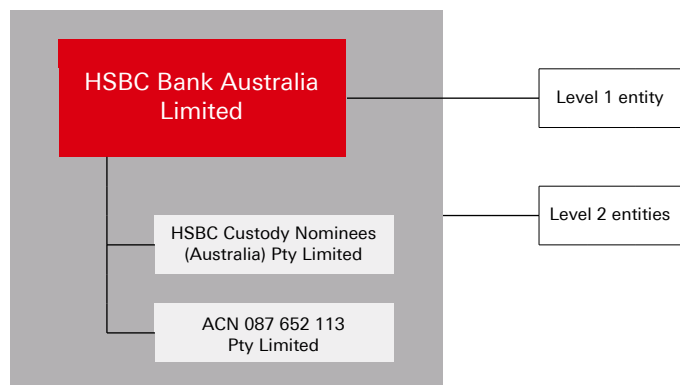
Purpose

This report has been prepared by HSBC Bank Australia Limited to meet its disclosure requirements under the Australian Prudential Regulation Authority's (APRA) Prudential Standard APS 330: Public Disclosure. It has been prepared using 30 September 2018 data.

Scope of application

For regulatory ('APRA') reporting purposes, HSBC Bank Australia Limited ('HBAU') establishes two levels of reporting; Level 1, which is HSBC Bank Australia Limited only, and Level 2, 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.



Verification

The Pillar 3 disclosures have been appropriately verified internally and are consistent with information that has been subject to review by an external auditor and that is lodged or published elsewhere or that has been already supplied to APRA.

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 for Credit, Market and Operational Risks 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
STD	=	Standardised Approach for either Credit, Market or Operational Risk
STD (ASA)	=	Standardised Approach (Alternative Standardised Approach) for Operational Risk

Frequency

This report, comprising Capital Adequacy disclosures (Table 3), Credit Risk (Table 4), Securitisation Exposures (Table 5) and Liquidity Coverage Ratio Disclosure (Table 20) is released on a quarterly basis.

The Regulatory Capital Composition and Reconciliation (Table 1), Net Stable Funding Ratio (Table 21) and Remuneration disclosures (Table 18) are published annually as at 31 December balance sheet date and can be viewed on the HSBC website under the 'Financial disclosures' tab using the following link:

<https://www.about.hsbc.com.au/hsbc-in-australia>

The Bank's main features of capital instruments (Table 2) are updated on an ongoing basis and are available at the Regulatory Disclosures section of the Bank's website at the above address.

Enquiries

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Capital

Table 3: Capital adequacy (consolidated)

	At	
	30 Sep 2018 AUDm	30 Jun 2018 AUDm
Capital requirements (in terms of risk-weighted assets) for credit risk by portfolio		
Corporate	5,926.1	6,431.3
Government	—	—
Bank	572.8	587.5
Residential mortgage	7,481.9	7,226.5
Other retail	925.3	962.1
All other	110.9	92.3
Risk-weighted assets – credit risk excluding securitisation	15,017.0	15,299.7
Securitisation	—	—
Total credit risk-weighted assets	15,017.0	15,299.7
Capital requirements (in terms of risk-weighted assets) for market risk	66.2	39.8
Capital requirements (in terms of risk-weighted assets) for operational risk	2,036.1	2,036.1
Total risk-weighted assets	17,119.3	17,375.6
Capital ratios (for the consolidated banking group)		
Common equity tier 1 capital ratio	10.5%	10.3%
Tier 1 capital ratio	12.0%	11.7%
Total capital ratio	14.1%	13.7%

Credit risk

Table 4(A): Credit risk by gross credit exposure (consolidated)

Exposure type	At 30 Sep 2018		At 30 Jun 2018	
	Total gross credit risk exposures	Average gross exposure over the period	Total gross credit risk exposures	Average gross exposure over the period
	AUDm	AUDm	AUDm	AUDm
Cash and liquid assets	183.0	133.3	83.6	168.0
Debt securities	9,223.4	8,973.2	8,722.9	8,413.9
Due from other financial institutions	1,650.9	1,853.0	2,055.1	1,994.6
Loans and advances	24,168.7	24,078.9	23,989.0	23,310.7
Derivatives	263.3	270.9	278.5	237.7
Contingent liabilities, commitments and other off-balance sheet exposures	7,736.2	7,570.8	7,405.4	7,221.8
Other assets	252.0	233.7	215.3	201.2
Total exposures	43,477.5	43,113.8	42,749.8	41,547.9
Portfolio type				
Corporate	7,863.9	8,119.4	8,374.8	8,492.3
Government	7,280.9	7,070.8	6,860.7	6,447.1
Bank	6,403.5	6,352.4	6,301.3	6,238.5
Residential mortgage	20,901.6	20,521.3	20,141.0	19,300.4
Other retail	944.2	963.4	982.5	991.7
All other	83.4	86.5	89.5	77.9
Total exposures	43,477.5	43,113.8	42,749.8	41,547.9

Note: Total exposures are based on local APRA definitions.

Table 4(B): Credit risk (consolidated)

	At 30 Sep 2018			3 months ended 30 Sep 2018		
	Impaired Loans	Restructured Loans	Past due loans >90 days ¹	Specific provisions	Charges for specific provisions	Net write-offs ²
	AUDm	AUDm	AUDm	AUDm	AUDm	AUDm
Financial position						
Portfolios subject to standardised approach						
– corporate	41.5	28.0	–	55.8	(2.2)	–
– government	–	–	–	–	–	–
– bank	19.7	–	–	17.6	0.1	–
– residential mortgage	33.9	–	62.5	4.0	(0.1)	–
– other retail	0.2	11.5	33.4	55.8	4.4	9.1
– all other	–	–	–	–	–	–
Total	95.3	39.5	95.9	133.2	2.2	9.1
	At 30 Jun 2018			3 months ended 30 Jun 2018		
Portfolios subject to standardised approach						
– corporate	78.0	28.2	–	57.2	(0.3)	–
– government	–	–	–	–	–	–
– bank	19.2	–	–	17.2	–	–
– residential mortgage	44.5	1.6	53.3	6.5	(0.1)	–
– other retail	0.2	13.2	34.1	56.0	3.4	9.3
– all other	–	–	–	–	–	–
Total	141.9	43.0	87.4	136.9	3.0	9.3

¹ Includes individually and portfolio managed facilities.

² Net write-offs equal write-offs from individual provisions, write-offs direct from collective provisions less recoveries of amounts previously written off, for the 3 months.

General reserve for credit losses (GRCL)

The GRCL represents a reserve created against the possibility of future credit losses (currently unidentified) prudently estimated but not certain to arise over the full life of all the individual facilities making up the business of HSBC Bank Australia Ltd.

For regulatory capital purposes, the difference between the GRCL and any accounting provisions deemed not to be regulatory specific provisions (the GRCL Shortfall) (net of tax) is deducted from Common Equity Tier 1 capital.

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

Table 4 (C): General reserve for credit losses

	30 Sep 2018	30 Jun 2018
	AUDm	AUDm
General reserve for credit losses	114.8	98.2

Securitisation

Securitisation exposures

No new securitisation or re-securitisation activity was undertaken during the September 2018 or June 2018 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 September 2018 or June 2018 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.

Table 5: Securitisation exposures

	30 Sep 2018	30 Jun 2018
	Exposure amount	Exposure amount
	AUDm	AUDm
Off-balance sheet ¹		
– derivatives	–	–
– other	–	–
Total off-balance sheet	–	–

¹ Credit equivalent value.

Liquidity Coverage Ratio Disclosure

The Liquidity Coverage Ratio (LCR) aims to ensure that a bank has sufficient High Quality Liquid Assets (HQLA) to meet its liquidity needs in a 30 calendar day severe liquidity stress scenario. The LCR is calculated as HQLA divided by total Net Cash Outflows (NCOs) over the period of the next 30 days. HBAU follows guidelines set by APRA and is compliant with the minimum coverage ratio requirement of 100%. HBAU reported a weighted average LCR of 146.1% in the quarter ended 30 September 2018.

HBAU maintains a well-diversified and high quality liquid asset portfolio to support regulatory and internal requirements. Average liquid assets for the quarter were \$10.1bn, of which HQLA was \$7.7bn. The HQLA portfolio consists primarily of Level 1 assets which include cash, deposits with Central Banks, Australian Semi Government and Commonwealth Government securities. The remainder of the portfolio consists of alternative liquid assets supporting the Committed Liquidity Facility provided by the Reserve Bank of Australia.

The Committed Liquidity Facility value used in the LCR calculation is the lesser of the undrawn portion of the facility granted to the HSBC and the value of the collateral HBAU chooses to place at any given time to support the facility and its liquidity requirements. This collateral is a combination of Internal Residential Mortgage Backed Securities (IRMBS) and other RBA repo eligible securities including bank bills.

Funding sources to support business growth are mainly from customer deposits coupled with wholesale debt issuance and funding from head office.

LCR NCOs represent the net cash flows that could potentially occur from on and off balance sheet activities within a 30-day severe liquidity stress scenario. The cash flows are calculated by applying APRA prescribed run-off factors to maturing debt and deposits offset by inflows of assets based on prescribed run-off factors. High run-off factors are applied to sophisticated investors and depositors including long term and short term debt holders, financial institution and corporate depositors. Lower run-off factors are applied to deposits less likely to be withdrawn in a period of severe stress. These include deposits from people and from small and medium enterprises. Deposits from corporate and financial institutions which are considered to be operational in nature also attract a lower run-off.

Cash outflows arising from business activities that create contingent funding and collateral requirements such as repo funding and derivatives and the extension of credit and liquidity facilities to customers are also captured within the LCR calculation, along with an allowance for debt buyback requests.

HBAU manages its LCR position daily within a target range which includes a buffer in excess of the regulatory requirement and reflects management risk appetite across the legal entity structure and major currencies in which business activities are undertaken. HBAU actively considers the impact of business decisions on the LCR.

During the period of June 2018 to September 2018, the average LCR ratio has decreased by 6% from 152% to 146%. This was attributable to increased NCOs of \$0.44bn due to increased outflows from unsecured wholesale funding of \$0.23bn and decreased inflows from fully performing exposures of \$0.13bn; partially offset by increased liquid assets of \$0.26bn.

Table 20: Liquidity Coverage Ratio Disclosure

	At 30 Sep 2018		At 30 Jun 2018	
	Total unweighted value (average) AUDm	Total weighted value (average) AUDm	Total unweighted value (average) AUDm	Total weighted value (average) AUDm
Liquid assets		10,100.6		9,842.6
1 – of which:				
<i>high-quality liquid assets ('HQLA')</i>		7,707		7,369
2 <i>alternative liquid assets ('ALA')</i>		2,393		2,473
3 Reserve Bank of New Zealand ('RBNZ') securities		–		–
Cash outflows		–		–
4 Retail deposits and deposits from small business customers	15,229	1,221	14,955	1,199
– of which:				
5 <i>stable deposits</i>	7,475	374	7,296	365
6 <i>less stable deposits</i>	7,754	848	7,660	834
7 Unsecured wholesale funding	12,148	5,500	11,611	5,274
– of which:				
8 <i>operational deposits (all counterparties) and deposits in networks for cooperative banks</i>	5,660	1,401	5,363	1,327
9 <i>non-operational deposits (all counterparties)</i>	6,465	4,076	6,248	3,946
10 <i>unsecured debt</i>	23	23	–	–
11 Secured wholesale funding		–		–
12 Additional requirements	6,160	623	5,970	575
– of which:				
13 <i>outflows related to derivatives exposures and other collateral requirements</i>	19	19	16	16
14 <i>outflows related to loss of funding on debt products</i>	–	–	–	–
15 <i>credit and liquidity facilities</i>	6,140	604	5,954	559
16 Other contractual funding obligations	208	–	175	–
17 Other contingent funding obligations	5,711	328	5,633	315
18 Total cash outflows		7,673		7,362
Cash inflows				
19 Secured lending (e.g. reverse repos)	–	–	17	–
20 Inflows from fully performing exposures	998	735	1,233	867
21 Other cash inflows	24	24	17	17
22 Total cash inflows	1,022	759	1,267	884
23 Total liquid assets		10,101		9,843
24 Total net cash outflows		6,914		6,478
25 Liquidity coverage ratio (%)		146.1%		151.9%
Data points		64		63

The LCR Disclosure Template reflects the Basel standards and is calculated based on simple averages of daily observations over the previous quarter excluding weekends and public holidays.

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