HSBC Bank Australia Limited

Pillar 3 Disclosures at 30 September 2018
Consolidated Basis

HSBC

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Introduction

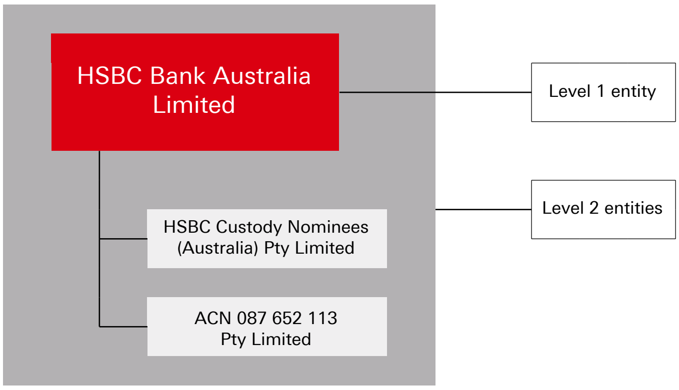
Purpose

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.

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Capital

Table 3: Capital adequacy (consolidated)

	At	
	30 Sep 2018	30 Jun 2018
	AUDm	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)

	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
Exposure type				
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 AUDm	Exposure amount 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 141.8% 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 3.3% from 145.1% to 141.8%. This was attributable to increased NCOs of $0.38bn due to increased outflows from unsecured wholesale funding of $0.18bn and decreased inflows from fully performing exposures of $0.12bn; partially offset by increased liquid assets of $0.32bn.

Table 20: Liquidity Coverage Ratio Disclosure

		At 30 Sep 2018		At 30 Jun 2018	
		Total unweighted value (average)	**Total weighted value (average)**	Total unweighted value (average)	Total weighted value (average)
		AUDm	**AUDm**	AUDm	AUDm
	Liquid assets		**10,112.8**		9,793.5
1	*– of which:*				
	high-quality liquid assets ('HQLA')		***7,718***		*7,321*
2	*alternative liquid assets ('ALA')*		***2,395***		*2,472*
3	Reserve Bank of New Zealand ('RBNZ') securities		**–**		–
	Cash outflows				
4	Retail deposits and deposits from small business customers	**15,231**	**1,222**	14,955	1,199
	– of which:				
5	*stable deposits*	***7,476***	***374***	*7,295*	*365*
6	*less stable deposits*	***7,755***	***848***	*7,660*	*834*
7	Unsecured wholesale funding	**12,370**	**5,731**	11,873	5,552
	– of which:				
8	*operational deposits (all counterparties) and deposits in networks for cooperative banks*	***5,662***	***1,402***	*5,360*	*1,328*
9	*non-operational deposits (all counterparties)*	***6,684***	***4,306***	*6,513*	*4,224*
10	*unsecured debt*	***23***	***23***	–	–
11	Secured wholesale funding		**–**		–
12	Additional requirements	**6,157**	**624**	5,967	575
	– of which:				
13	*outflows related to derivatives exposures and other collateral requirements*	***19***	***19***	*16*	*16*
14	*outflows related to loss of funding on debt products*	**–**	**–**	–	–
15	*credit and liquidity facilities*	***6,138***	***604***	*5,951*	*559*
16	Other contractual funding obligations	**208**	**–**	175	–
17	Other contingent funding obligations	**5,714**	**328**	5,636	315
18	**Total cash outflows**		**7,904**		7,641
	Cash inflows				
19	Secured lending (e.g. reverse repos)	**–**	**–**	17	–
20	Inflows from fully performing exposures	**1,001**	**750**	1,233	873
21	Other cash inflows	**24**	**24**	17	17
22	**Total cash inflows**	**1,024**	**774**	1,268	891
23	**Total liquid assets**		**10,113**		9,794
24	**Total net cash outflows**		**7,130**		6,750
25	**Liquidity coverage ratio (%)**		**141.8%**		145.1%
	Data points	**63**		62	

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.
This disclosure has been restated in August 2019 in response to an APRA request that some intragroup loans containing Material Adverse Change (MAC) clauses be modelled as at call for LCR purposes. This restatement has the effect of reducing the September 2018 average LCR from 146.1% to 141.8% and the June 2018 average LCR from 151.9% to 145.1%.

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