

HSBC Bank Australia Limited

Pillar 3 Disclosures at 30 September 2019
Consolidated Basis

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Introduction

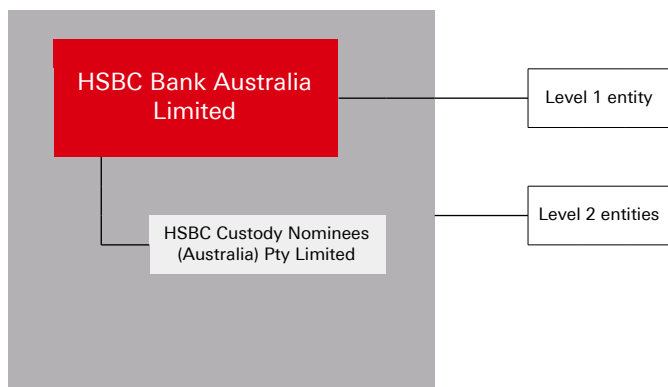
Purpose

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. Figures contained within this report relate to quarter ended 30 September 2019 (unless otherwise stated).

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 are not required to be audited by an external auditor. However, the disclosures have been appropriately verified internally and are consistent with information that is lodged or published elsewhere or that has been already supplied to APRA.

HSBC Bank Australia Limited 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 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 2019 \$m	30 Jun 2019 \$m
Capital requirements (in terms of risk-weighted assets) for credit risk by portfolio		
Corporate	5,239.1	5,462.0
Government	—	—
Bank	639.0	694.1
Residential mortgage	9,216.4	8,828.9
Other retail	847.5	859.3
All other	369.5	367.5
Risk-weighted assets – credit risk excluding securitisation	16,311.5	16,211.8
Securitisation	—	—
Total credit risk-weighted assets	16,311.5	16,211.8
Capital requirements (in terms of risk-weighted assets) for market risk	32.5	101.2
Capital requirements (in terms of risk-weighted assets) for operational risk	2,292.1	2,292.1
Total risk-weighted assets	18,636.1	18,605.1
Capital ratios (for the consolidated banking group)		
Common equity tier 1 capital ratio	10.7%	10.5%
Tier 1 capital ratio	12.1%	11.9%
Total capital ratio	13.8%	13.6%

Credit risk

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

Exposure type	At 30 Sep 2019		At 30 Jun 2019	
	Total gross credit risk exposures	Average gross exposure over the period	Total gross credit risk exposures	Average gross exposure over the period
	\$m	\$m	\$m	\$m
Cash and liquid assets	285.5	240.0	194.4	181.9
Debt securities	11,195.9	11,650.0	12,104.0	11,473.5
Due from other financial institutions	1,985.8	1,983.4	1,981.0	1,802.6
Loans and advances	28,239.7	27,863.1	27,486.4	27,044.3
Derivatives	318.3	269.7	221.1	233.6
Contingent liabilities, commitments and other off-balance sheet exposures	9,091.7	9,483.2	9,874.6	9,238.0
Other assets	627.5	562.2	497.0	486.6
Total exposures	51,744.4	52,051.6	52,358.5	50,460.5
Portfolio type				
Corporate	7,175.5	7,211.2	7,246.8	7,314.9
Government	9,028.3	9,377.6	9,726.9	9,143.2
Bank	8,438.7	8,929.0	9,419.2	8,890.4
Residential mortgage	25,858.8	25,307.6	24,756.4	23,906.3
Other retail	860.4	867.2	874.0	881.0
All other	382.7	359.0	335.2	324.7
Total exposures	51,744.4	52,051.6	52,358.5	50,460.5

Note: Total exposures are based on local APRA definitions.

Table 4(B): Credit risk (consolidated)

Financial position	At 30 Sep 2019				3 months ended 30 Sep 2019	
	Impaired Loans	Restructured Loans	Past due loans >90 days ¹	Specific provisions	Net charges for specific provisions	Net write-offs ²
	\$m	\$m	\$m	\$m	\$m	\$m
Portfolios subject to standardised approach						
– corporate	41.2	25.2	–	49.4	2.1	–
– government	–	–	–	–	–	–
– bank	21.2	–	–	17.5	0.1	–
– residential mortgage	52.2	–	79.5	9.0	0.5	–
– other retail	–	7.0	27.9	43.5	(9.3)	8.6
– all other	–	–	–	–	–	–
Total	114.7	32.3	107.4	119.4	(6.6)	8.6
	At 30 Jun 2019			3 months ended 30 Jun 2019		
Portfolios subject to standardised approach						
– corporate	45.3	25.1	–	62.9	1.1	–
– government	–	–	–	–	–	–
– bank	20.3	–	–	16.9	–	–
– residential mortgage	54.3	1.3	63.8	8.6	1.8	–
– other retail	0.2	9.6	31.0	62.4	(3.6)	9.6
– all other	–	–	–	–	–	–
Total	120.1	36.0	94.8	150.8	(0.7)	9.6

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 HBAU.

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 2019	30 Jun 2019
	\$m	\$m
General reserve for credit losses	67.1	79.2

Securitisation

Securitisation exposures

No new securitisation or re-securitisation activity was undertaken during the September 2019 or June 2019 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 2019 or June 2019 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. HBAU has no re-securitisation exposure currently or in the prior quarter.

Table 5: Securitisation exposures

	30 Sep 2019 Exposure amount \$m	30 Jun 2019 Exposure amount \$m
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. HBAU follows guidelines set by APRA and is compliant with the minimum coverage ratio requirement of 100%. HBAU reported a weighted average LCR of 165.3% in the quarter ended 30 September 2019.

HBAU maintains a well-diversified and high quality liquid asset portfolio to support regulatory and internal requirements. Average liquid assets for the quarter were \$11.6bn, of which HQLA was \$8.0bn. HBAU's mix of liquid assets consists of HQLA, being cash, deposits with Central Bank, Australian Semi-Government and Commonwealth Government Securities. Liquid assets also include repo-eligible securities with the Reserve Bank of Australia under the Committed Liquidity Facility ('CLF').

Funding sources to support business growth are primarily from customer deposits.

LCR Net Cash Outflows ('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. Higher 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 on a daily basis, ensuring a buffer is maintained over the minimum regulatory requirement and the Board's risk appetite.

During the period of June 2019 to September 2019, the average LCR ratio has increased by 5.5% from 159.7% to 165.3%. This was mainly attributable to increased liquid asset of \$179m resulted from increased high quality liquid assets of \$185m; and decreased net cash outflows of \$131m driven by decreased outflows from non-operational deposits \$726m and decreased inflows from fully performing exposures \$284m.

Table 20: Liquidity Coverage Ratio Disclosure

	At 30 Sep 2019		At 30 Jun 2019	
	Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
	\$m	\$m	\$m	\$m
Liquid assets		11,619.7		11,440.9
1 – of which:				
<i>high-quality liquid assets ('HQLA')</i>		7,994.1		7,808.9
2 <i>alternative liquid assets ('ALA')</i>		3,625.6		3,632.0
3 Reserve Bank of New Zealand ('RBNZ') securities		–		–
Cash outflows		–		–
4 Retail deposits and deposits from small business customers	18,373.3	1,636.4	17,397.3	1,437.1
5 – of which:				
<i>stable deposits</i>	8,733.0	436.7	8,351.0	417.6
6 <i>less stable deposits</i>	9,640.3	1,199.7	9,046.3	1,019.6
7 Unsecured wholesale funding	12,747.9	5,185.2	13,415.3	5,796.6
8 – of which:				
<i>operational deposits (all counterparties) and deposits in networks for cooperative banks</i>	6,726.0	1,617.8	6,201.9	1,536.5
9 <i>non-operational deposits (all counterparties)</i>	5,955.9	3,501.3	7,182.2	4,228.8
10 <i>unsecured debt</i>	66.1	66.1	31.2	31.2
11 Secured wholesale funding		–		–
12 Additional requirements	5,649.3	618.1	5,431.0	598.7
13 – of which:				
<i>outflows related to derivatives exposures and other collateral requirements</i>	18.5	18.5	18.4	18.4
14 <i>outflows related to loss of funding on debt products</i>	–	–	–	–
15 <i>credit and liquidity facilities</i>	5,630.7	599.6	5,412.6	580.4
16 Other contractual funding obligations	44.5	–	94.0	–
17 Other contingent funding obligations	5,017.1	283.4	5,295.8	305.8
18 Total cash outflows		7,723.1		8,138.2
Cash inflows				
19 Secured lending (e.g. reverse repos)	66.6	–	48.0	–
20 Inflows from fully performing exposures	987.8	669.7	1,228.1	953.9
21 Other cash inflows	22.1	22.1	21.8	21.8
22 Total cash inflows	1,076.5	691.8	1,297.9	975.8
23 Total liquid assets		11,619.7		11,440.9
24 Total net cash outflows		7,031.3		7,162.5
25 Liquidity coverage ratio (%)		165.3		159.7
Data points		65		61

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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