

HSBC Bank Australia Limited

**Pillar 3 Disclosures at 30 September 2023
Consolidated Basis**

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Introduction

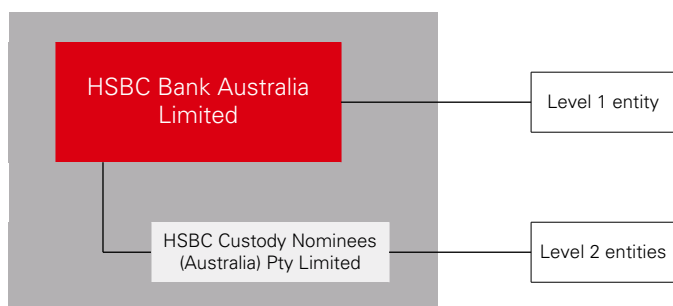
Purpose

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 2023 (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 2023 \$m	At 30 Jun 2023 \$m
Capital requirements (in terms of risk-weighted assets) for credit risk by portfolio		
Corporate	6,405.0	6,351.1
Government	—	—
Bank	434.0	379.5
Residential mortgage	11,696.8	11,602.8
Other retail	871.7	877.0
All other	304.8	273.7
Total Credit risk weighted assets (excluding securitisation)	19,712.3	19,484.1
Capital requirements (in terms of risk-weighted assets) for securitisation	14.7	17.5
Capital requirements (in terms of risk-weighted assets) for market risk	148.6	217.0
Capital requirements (in terms of risk-weighted assets) for operational risk	1,756.4	1,756.4
Total risk-weighted assets	21,632.0	21,475.0
Capital ratios (for the consolidated banking group)		
Common equity tier 1 capital ratio (%)	12.2	12.0
Tier 1 capital ratio (%)	14.1	13.8
Total capital ratio (%)	15.8	15.6

Credit risk

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

Exposure type	At 30 Sep 2023		At 30 Jun 2023	
	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	632.8	639.3	645.7	581.1
Debt securities	11,195.2	10,710.1	10,225.0	9,558.8
Due from other financial institutions	3,658.1	3,544.9	3,431.7	4,868.9
Loans and advances	35,814.8	35,614.4	35,413.9	35,663.0
Derivatives	162.8	171.0	179.1	188.3
Contingent liabilities, commitments and other off-balance sheet exposures	12,948.8	12,286.9	11,625.0	11,792.9
Other assets	543.6	555.2	567.1	562.7
Total exposures	64,956.1	63,521.8	62,087.5	63,215.7
Portfolio type				
Corporate	7,811.3	7,882.7	7,954.1	7,975.7
Government	9,754.5	9,414.6	9,074.7	8,505.5
Bank	11,177.7	10,284.9	9,392.0	10,880.2
Residential mortgage	34,762.4	34,504.8	34,247.3	34,423.1
Other retail	1,137.3	1,141.0	1,144.8	1,148.7
All other	312.9	293.8	274.6	282.5
Total exposures	64,956.1	63,521.8	62,087.5	63,215.7

Note: Total exposures are based on local APRA definitions.

Table 4(B): Credit risk: non-performing exposures (consolidated)

Financial position	At 30 Sep 2023		3 months ended 30 Sep 2023	
	Non-performing loans	Specific provisions ¹	Net charges for specific provisions ³	Net write-offs ²
	\$m	\$m	\$m	\$m
Portfolios subject to standardised approach				
– corporate	40.4	31.7	9.6	2.9
– government	—	—	—	—
– bank	22.0	18.3	—	—
– residential mortgage	281.4	4.9	(0.7)	—
– other retail	20.2	4.3	(6.3)	—
– all other	—	—	—	—
Total	364.0	59.2	2.5	2.9
	At 30 Jun 2023		3 months ended 30 Jun 2023	
	Non-performing loans	Specific provisions ¹	Net charges for specific provisions ³	Net write-offs ²
	\$m	\$m	\$m	\$m
Portfolios subject to standardised approach				
– corporate	42.1	25.0	5.9	49.0
– government	—	—	—	—
– bank	21.5	18.3	0.7	—
– residential mortgage	272.4	5.6	(4.2)	—
– other retail	22.5	10.7	4.9	—
– all other	—	—	—	—
Total	358.5	59.6	7.3	49.0

1 Specific provisions only include Stage 3 ECL, which is now updated from March 2023 as a result of the transitional APS330 changes to the ARS220 updates which replaces impaired and past due with Non-performing loans that only relates to Stage 3 exposures.

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 three months.

3 Charges for specific provisions other than provisions written off.

Table 4(C): Credit risk: provisions held against performing exposures

	At 30 Sep 2023	At 30 Jun 2023
	\$m	\$m
Provisions held against performing exposures that represent a purely forward looking amount for future losses that are presently unidentified (as reported in Tier 2 capital).	31.6	35.5

Securitisation

Table 5: Securitisation exposure

Exposure type	30 Sep 2023		30 Jun 2023	
	Securitisation activity	Gain or loss on sale	Securitisation activity	Gain or loss on sale
	\$m	\$m	\$m	\$m
Residential mortgages – ADI originated	—	—	899.0	—
Credit cards – third party originated	—	—	—	—
Total	—	—	—	—

Securitisation exposure	At 30 Sep 2023		At 30 Jun 2023	
	On-balance sheet securitisation exposures retained or purchased	Off-balance sheet securitisation exposures	On-balance sheet securitisation exposures retained or purchased	Off-balance sheet securitisation exposures
	\$m	\$m	\$m	\$m
Securities held in the banking book	—	—	—	—
Liquidity facilities	—	25.8	—	24.7
Funding facilities	6.3	—	8.3	—
Swaps	—	63.4	—	80.8
Other	1.8	—	0.5	—
Total	8.1	89.2	8.8	105.5

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 166.5% in the quarter ended 30 September 2023.

HBAU maintains a well-diversified and high quality liquid asset portfolio to support regulatory and internal requirements. Average liquid assets for the quarter were \$16.3bn. HBAU's mix of liquid assets consist of cash, deposits with Central Bank, Australian Semi Government and Commonwealth Government Securities.

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, deposits and off balance sheet exposures offset by inflows from 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 2023 to September 2023, the average LCR ratio has increased by 7.5% from 159.0% to 166.5%. This was mainly driven by increase in high-quality liquid assets of \$1.4bn.

Table 20: Liquidity coverage ratio disclosure

	At 30 Sep 2023		At 30 Jun 2023	
	Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
	\$m	\$m	\$m	\$m
Liquid assets		16,343.5		14,973.3
1 – of which:				
high-quality liquid assets ('HQLA')		16,343.5		14,973.3
2 alternative liquid assets ('ALA')		—		—
3 Reserve Bank of New Zealand ('RBNZ') securities		—		—
Cash outflows				
4 Retail deposits and deposits from small business customers	21,174.0	1,910.3	20,177.8	1,781.9
5 – of which:				
stable deposits	9,833.9	491.7	9,624.1	481.2
6 less stable deposits	11,340.1	1,418.6	10,553.7	1,300.7
7 Unsecured wholesale funding	17,884.5	7,272.2	17,764.5	6,983.7
8 – of which:				
operational deposits (all counterparties) and deposits in networks for cooperative banks	9,309.6	2,230.9	8,974.6	2,149.2
9 non-operational deposits (all counterparties)	8,574.9	5,041.3	8,789.9	4,834.5
10 unsecured debt	—	—	—	—
11 Secured wholesale funding		—		—
12 Additional requirements	8,025.6	752.9	7,772.0	730.7
13 – of which:				
outflows related to derivatives exposures and other collateral requirements	41.7	41.7	35.1	35.1
14 outflows related to loss of funding on debt products	0.6	0.6	—	0.4
15 credit and liquidity facilities	7,983.3	710.6	7,736.9	695.2
16 Other contractual funding obligations	118.6	113.0	196.0	191.1
17 Other contingent funding obligations	4,938.8	391.2	4,828.9	364.8
18 Total cash outflows		10,439.6		10,052.2
Cash inflows				
19 Secured lending (e.g. reverse repos)	3,030.1	—	3,351.7	—
20 Inflows from fully performing exposures	982.0	545.3	959.1	571.5
21 Other cash inflows	76.0	76.0	63.3	63.3
22 Total cash inflows	4,088.1	621.3	4,374.1	634.8
23 Total liquid assets		16,343.5		14,973.3
24 Total net cash outflows		9,818.3		9,417.4
25 Liquidity coverage ratio (%)		166.5		159.0
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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