HSBC Bank Australia Ltd

Pillar 3 Disclosures

31 December 2015

Consolidated Basis

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1. Introduction

Purpose

The Basel framework is structured around three 'pillars': the Pillar 1 minimum capital requirements and Pillar 2 supervisory review process are complemented by Pillar 3 market discipline.

The aim of Pillar 3 is to produce disclosures which allow market participants to assess the scope of application by banks of the Basel framework and the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, and hence their capital adequacy. Pillar 3 requires all material risks to be disclosed, enabling a comprehensive view of a bank's risk profile.

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 unforseen events, enables the ADI to continue operating while those issues are addressed or resolved. In June 2004, the Basel Committee on Banking Supervision (BCBS) 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'). This was followed in December 2010 by "Basel III", a comprehensive set of reform measures, developed by the BCBS, to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to:

- improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source
- improve risk management and governance
- strengthen banks' transparency and disclosures

The capital adequacy framework under the Basel 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 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 Advanced Approaches and those adopting the Standardised Approach.

Basel III capital reforms took effect from 1 January 2013 and 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 did not meet the new Basel III capital eligibility criteria as detailed in Prudential Standard APS 111 were de-recognised from 1st January 2013 or formally approved by APRA to allow the application of transitional arrangements.

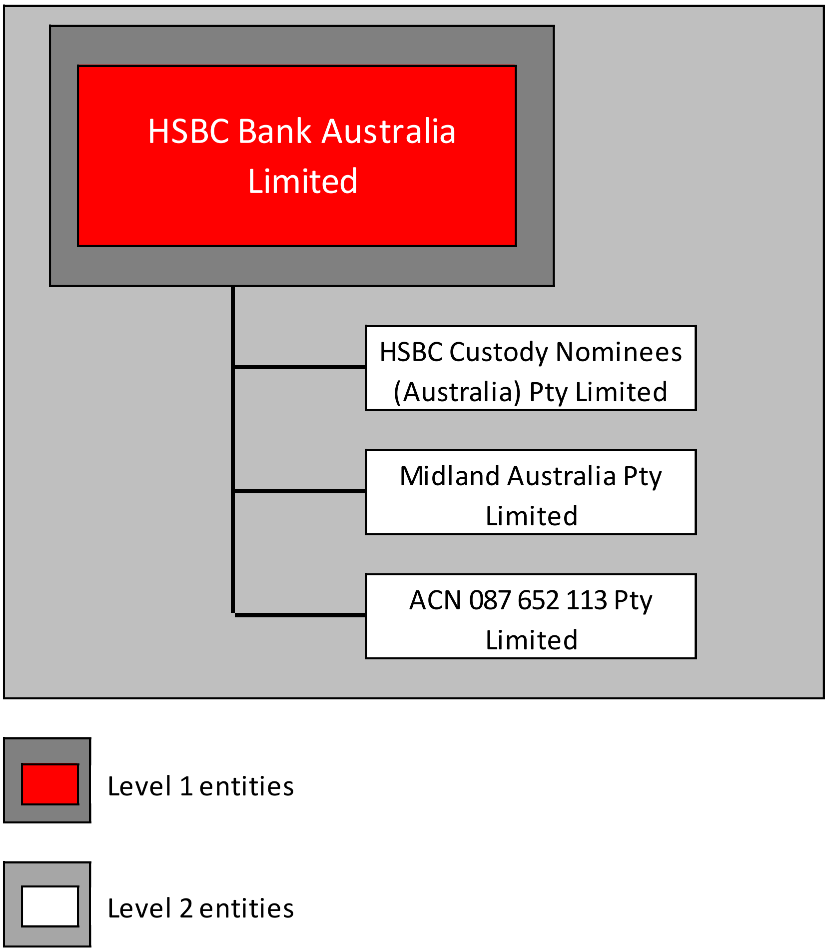
To view the main features of the current regulatory capital instruments please refer to the Regulatory Disclosures tab using the following link:

http://www.about.hsbc.com.au/hsbc-in-australia

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.

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 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

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) are published annually as at the 31st December balance sheet date and can be viewed on the HSBC website under 'Regulatory disclosures' tab using the following link:

http://www.about.hsbc.com.au/hsbc-in-australia

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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.

Table 1 – Common Disclosure Template

Capital disclosures detailed in the template below represent the post 1 January 2013 Basel III common disclosure requirements. HSBC Bank Australia Limited is applying the Basel III regulatory adjustments in full as implemented by APRA.

	Common Equity Tier 1 Capital: Instruments and Reserves	31-Dec-15 AUD $M	Reconciliation Table Reference	Reference to Regulatory Capital reconciliation
1	Directly issued qualifying ordinary shares (and equivalent for mutually owned entities) capital	811.0		E1
2	Retained earnings	823.4	Table A	E4
3	Accumulated other comprehensive income (and other reserves)	(7.0)	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**	**1,627.4**		
	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)	4.2	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	(9.5)		
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	(1.5)		
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)	-		

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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)	99.4		
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	99.4		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**	**151.2**		
29	**Common Equity Tier 1 Capital (CET1)**	**1,476.2**		
	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**	**-**		
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)**	**1,476.2**		
	Tier 2 Capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments	250.0		
47	Directly issued capital instruments subject to phase out from Tier 2	-		
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	119.7	Table D	
51	**Tier 2 Capital before regulatory adjustments**	**369.7**		
	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)**	**369.7**		
59	**Total Capital (TC=T1+T2)**	**1,845.9**		
60	**Total risk-weighted assets based on APRA standards**	**14,881.4**		
	Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	9.9%		
62	Tier 1 (as a percentage of risk-weighted assets)	9.9%		
63	Total Capital (as a percentage of risk-weighted assets)	12.4%		
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)	9.9%		
	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)	99.4		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)	119.7		
77	Cap on inclusion of provisions in Tier 2 under standardised approach	165.7		
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		
81	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	n/a		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	n/a		

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

There are no entities excluded from the regulatory scope of consolidation

Table 3 - Capital Adequacy (Consolidated)

All figures in AUDm

Capital requirements (in terms of risk weighted assets) for credit risk by portfolio	December 2015	September 2015
• Corporate	6,638	7,398
• Government	40	44
• Bank	595	695
• Residential Mortgage	5,017	4,967
• Other Retail	907	878
• All Other	62	88
Risk weighted assets – Credit risk excluding securitisation	**13,259**	**14,070**
• Securitisation	-	-
Total credit risk weighted assets	**13,259**	**14,070**
Capital requirements (in terms of risk weighted assets) for Market risk	54	65
Capital requirements (in terms of risk weighted assets) for Operational risk	1,568	1,497
Total risk weighted assets	**14,881**	**15,631**

Capital Ratios	December 2015	September 2015
Total capital ratio for the consolidated banking group	12.4%	11.2%
Tier 1 capital ratio for the consolidated banking group	9.9%	9.6%
Common Equity Tier 1 capital ratio for the consolidated banking group	9.9%	9.6%

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. The high-level oversight and management of credit risk is 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 Group Risk Committee 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.

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

All figures in AUDm

	December 2015		September 2015	
Exposure Type	**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	40	48	56	69
• Debt Securities	6,083	6,188	6,292	6,609
• Due from Other Financial Institutions	2,400	1,725	1,050	1,069
• Loans and Advances	18,617	18,480	18,342	17,883
• Derivatives	157	177	197	165
• Contingent Liabilities, Commitments and other Off-Balance Sheet Exposures	8,539	7,212	5,884	6,237
• Other Assets	139	149	158	214
Total Exposures	**35,975**	**33,979**	**31,979**	**32,246**

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	8,244	8,231	8,218	7,977
• Government	4,224	4,050	3,876	3,773
• Bank	8,394	6,711	5,028	5,788
• Residential Mortgage	14,088	13,957	13,825	13,617
• Other Retail	964	949	934	948
• All Other	61	81	98	143
Total Exposures	**35,975**	**33,979**	**31,979**	**32,246**

Note: Total exposures are based on local APRA definitions.

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.

Table 4(B) – Credit risk (Consolidated)

All figures in AUDm

Financial Position

Portfolios subject to Standardised approach	December 2015 Impaired Loans[2]	Restructured Loans	Past due loans >90 days[1]	Provisions[1]
• Corporate	258.5	-	-	81.5
• Government	-	-	-	-
• Bank	19.5	-	-	17.5
• Residential Mortgage	2.5	4.5	49.1	0.2
• Other Retail	0.3	6.8	14.2	20.4
• All Other	-	-	-	-
Sub Total	**280.7**	**11.3**	**63.3**	**119.5**
Collective provision				15.8
Total Provisions				**135.3**

Portfolios subject to Standardised approach	September 2015 Impaired Loans	Restructured Loans	Past due loans >90 days[1]	Provisions[1]
• Corporate	141.3	-	-	33.8
• Government	-	-	-	-
• Bank	20.3	-	-	18.2
• Residential Mortgage	3.4	-	52.7	0.9
• Other Retail	0.1	-	14.0	19.6
• All Other	-	-	-	-
Sub Total	**165.1**	**0.0**	**66.7**	**72.5**
Collective provision				28.0
Total Provisions				**100.4**

[1] Includes Individually and Portfolio Managed Facilities.
[2] The quarterly increase in impairments and provisions relates mainly to two corporate relationships with impairments of AUD 62.2m and AUD 90.0m respectively.

All figures in AUDm

Financial Performance

Portfolios subject to Standardised approach [1]	December 2015 Charges for Provisions	Write offs	Recoveries	Total
• Corporate	55.3	0.4	(8.5)	47.3
• Government	-	-	-	-
• Bank	-	-	-	-
• Residential Mortgage	0.6	0.0	(0.0)	0.5
• Other Retail	2.5	52.2	(20.1)	34.5
• All Other	-	0.0	-	0.0
Sub Total	**58.4**	**52.6**	**(28.7)**	**82.3**
Movement in collective provision (not included above)	-		(12.9)	(12.9)
Total loan impairment charges and other movement in credit risk provisions	**58.4**	**52.6**	**(41.6)**	**69.5**

[1] Full year to December.

Portfolios subject to Standardised approach [2]	September 2015 Charges for Provisions	Write offs	Recoveries	Total
• Corporate	1.0	-	(8.2)	(7.1)
• Government	-	-	-	-
• Bank	-	-	-	-
• Residential Mortgage	0.4	0.0	(0.0)	0.3
• Other Retail	1.1	39.1	(15.0)	25.2
• All Other	-	0.0	-	0.0
Sub Total	**2.6**	**39.1**	**(23.2)**	**18.4**
Movement in collective provision (not included above)	-		(0.7)	(0.7)
Total loan impairment charges and other movement in credit risk provisions	**2.6**	**39.1**	**(23.9)**	**17.7**

[2] Year-to-Date figures.

Table 4 (C) - General Reserve for Credit Losses

The Bank maintains a level of General Reserves, in addition to specific allowances, 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, compared with regulatory expected losses, is fully deducted from retained earnings (Common Equity Tier 1 Capital).

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

All figures in AUDm

	December 2015	September 2015
General Reserve for Credit Losses	**119.7**	**120.6**

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

a) No new securitisation or re-securitisation activity was undertaken during the December 2015 or September 2015 quarters relating to SPEs where the notes and receivables are owned by external parties.

b) There were no new on-balance sheet securitisation exposures retained or purchased during the December 2015 or September 2015 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.

c) On 15 December 2015 the clean-up call option was exercised on The Lion Trust Series 2007-1 Trust (The Trust) Series Notes dated 4 April 2007. The Trust loan pool balance stood at AUD 100.2m as 30 November 2015, below the call option trigger point of AUD 101.8m where 90% of the pool value at inception has been amortised. All outstanding notes of the Trust were redeemed on the Call date.

All figures in AUDm

	December 2015	September 2015
Off Balance Sheet [1]	**Exposure Amount**	**Exposure Amount**
• Derivatives	-	0.2
• Other	-	-
Total Off Balance Sheet	-	**0.2**

[1] Credit equivalent value

Liquidity Coverage Ratio (LCR)

The Liquidity Coverage Ratio (LCR) requires banks to hold sufficient high-quality liquid assets, as defined, to withstand 30 days under a regulator-defined acute stress scenario. The LCR came into effect from 1 January 2015. The Bank's average monthly LCR for the quarter ending 31 December 2015 was 138.4%.

Liquid assets comprise High Quality Liquid Assets (HQLA) and the Committed Liquidity Facility (CLF) from the Reserve Bank of Australia. HBAU received approval from APRA for a CLF of $3 billion for 2015. HBAU maintains a portfolio of HQLA which averaged $7.6 billion over the quarter. The $2.7 billion disclosed as 'Alternative liquid assets' reflects the required 'open-repo' of internal self-securitised Residential Mortgage Backed Securities (RMBS) with the RBA, which is considered a utilisation of the CLF and increases the HQLA.

Funding is mainly sourced from retail, corporate and institutional customer deposits, occasionally augmented by smaller amounts of intergroup and wholesale funding. HBAU seeks to minimise the outflows associated with this funding by targeting customer deposits with lower LCR outflow rates. HBAU maintains a buffer over the regulatory minimum of 100%.

The average for the December quarter is calculated as a simple average of the data points for 31 October, 30 November 2015 and 31 December 2015.

Table 20 – Liquidity Coverage Ratio (LCR)

Reporting Date: 31st December 2015

		Total unweighted value (average) (A$m)	Total weighted value (average) (A$m)
Liquid assets, of which:			
1	High-quality liquid assets (HQLA)		7,575
2	Alternative liquid assets (ALA)		2,670
3	Reserve Bank of New Zealand (RBNZ) securities		-
Cash outflows		-	
4	Retail deposits and deposits from small business customers, of which:	13,302	1,072
5	*stable deposits*	6,312	316
6	*less stable deposits*	6,989	757
7	Unsecured wholesale funding, of which:	11,672	5,738
8	*operational deposits (all counterparties) and deposits in networks for cooperative banks*	5,938	1,468
9	*non-operational deposits (all counterparties)*	5,667	4,203
10	*unsecured debt*	67	67
11	Secured wholesale funding		-
12	Additional requirements, of which	4,699	565
13	*outflows related to derivatives exposures and other collateral requirements*	79	79
14	*outflows related to loss of funding on debt products*	-	-
15	*credit and liquidity facilities*	4,620	486
16	Other contractual funding obligations	222	2
17	Other contingent funding obligations	5,789	319
18	**Total cash outflows**		7,695
Cash inflows			
19	Secured lending (e.g. reverse repos)	1,961	-
20	Inflows from fully performing exposures	510	272
21	Other cash inflows	28	28
22	Total cash inflows	2,499	300
			Total adjusted value
23	**Total liquid assets**		10,245
24	**Total net cash outflows**		7,395
25	**Liquidity Coverage Ratio (%)**		138.4

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

	AUD $M	Template reference
Table A		
Retained Earnings		
Total per Balance Sheet	901.5	
Less increments in General Reseve for Credit Losses deducted from retained earnings	(98.7)	
Add eligible deferred fee income recognised in regulatory capital	20.6	
Total Common Disclosure Template - Retained Earnings	823.4	row 2
Table B		
Reserves		
Total per Balance Sheet	(0.7)	
Less share based payment reserve	(6.3)	
Total Common Disclosure Template - Other Comprehensive Income	(7.0)	row 3
Table C		
Goodwill & Other Intangibles		
Total per Balance Sheet	62.9	
Less capitalised software and other intangibles separately disclosed in template	(4.2)	
Total Common Disclosure Template - Goodwill	58.7	row 8
Other intangibles including capitalised software	4.2	
Less deferred tax liability associated with other intangibles	-	
Total Common Disclosure Template - Other Intangibles	4.2	row 9
Table D		
Tier 2 Eligible Provisions		
Total included in Balance Sheet	36.1	
Exclude non eligible provision per APS 220	(15.1)	
Add increments in General Reseve for Credit Losses deducted from retained earnings	98.7	
Total Common Disclosure Template - Tier 2 Eligible Provisions	119.7	row 50

Basel III Pillar 3 Disclosures – as at 31 December 2015

Appendix B - 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 Dec 2015 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	2,224.9	550.4	2,775.3	
A2	Receivables due from other financial institutions	124.4	2,285.7	2,410.1	
A3	Trading securities	-	-	-	
A4	Derivative assets	56.0	-	56.0	
A5	Investment securities	5,710.1	373.3	6,083.4	
A6	Loans, bills discounted and other receivables	18,837.2	(344.5)	18,492.7	
A8	Investment in regulatory non consolidated subsidiaries	-	-	-	
A10	Property, plant and equipment	9.9	-	9.9	
A11	Investment in associates	-	-	-	
A12	Intangible assets	62.9	(4.2)	58.7	row 8, Table C
A13	Deferred tax assets	99.4	-	99.4	row 26e
A14	Other assets	3,256.6	(2,955.2)	301.4	
	of which : other intangibles			*4.2*	row 9, Table C
	Total Assets	**30,381.4**	**(94.5)**	**30,286.9**	
	Liabilities				
L1	Deposits and other borrowings	24,807.6	2,286.3	27,093.9	
L2	Payables due to other financial institutions	367.0	390.8	757.8	
L3	Derivative liabilities	91.0	0.1	91.1	
L6	Income tax liabilities	-	-	-	
L7	Provisions	83.4	(1.7)	81.7	
L9	Payables and other liabilities	3,070.6	(2,692.0)	378.6	
L10	Subordinated debt - at amortised cost	250.0	-	250.0	row 46
	of which : included in Tier 2 capital post phase out amortisation			-	row 47
	Total Liabilities	**28,669.6**	**(16.5)**	**28,653.1**	
	Net Assets	**1,711.8**	**(78.0)**	**1,633.8**	
	Equity				
	Share capital:				
E1	Ordinary share capital	811.0	-	811.0	row 1
E2	Other equity instruments	-	-	-	
E3	Reserves	(0.7)	0.1	(0.6)	Table B
	of which : Available for sale reserve - gain/(loss)			*2.5*	row 3
	of which : Cash flow hedge reserve - gain/(loss)			*(9.5)*	row 3, row 11
E4	Retained profits	901.5	(78.1)	823.4	row2, Table A
	Total Equity	**1,711.8**	**(78.0)**	**1,633.8**	