

The Hongkong and Shanghai Banking Corporation Limited

**Banking Disclosure Statement at 31 March 2024
(Unaudited)**

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Introduction

Purpose

The information contained in this document relates to The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries (together 'the group'). The Banking Disclosure Statement and the Main Features of Regulatory Capital Instruments and Non-capital LAC Debt Instruments document, taken together, comply with both the Banking (Disclosure) Rules ('BDR') made under section 60A of the Banking Ordinance and the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules ('LAC Rules') made under section 19(1) of the Financial Institutions (Resolution) Ordinance.

References to 'HSBC', 'the Group' or 'the HSBC Group' within this document mean HSBC Holdings plc together with its subsidiaries. Within this document the Hong Kong Special Administrative Region of the People's Republic of China is referred to as 'Hong Kong'. The abbreviations 'HK\$m' and 'HK\$bn' represent millions and billions (thousands of millions) of Hong Kong dollars respectively.

These banking disclosures are governed by the group's disclosure policy, which has been approved by the Board of Directors. The disclosure policy sets out the governance, control and assurance requirements for publication of the document. While the disclosure statement is not required to be externally audited, the document has been subject to independent review by the HSBC Global Internal Audit team and has been approved by the Audit Committee as delegated by the Board.

Basis of preparation

Except where indicated otherwise, the financial information contained in this Banking Disclosure Statement has been prepared on a consolidated basis. The basis of consolidation for regulatory purposes is different from that for accounting purposes.

The approaches used in calculating the group's regulatory capital and risk-weighted assets ('RWAs') are in accordance with the Banking (Capital) Rules ('BCR'). The group uses the advanced internal ratings-based ('IRB') approach to calculate its credit risk for the majority of its non-securitisation exposures. For collective investment scheme ('CIS') exposures, the group uses the look-through approach ('LTA') to calculate the RWA. For securitisation exposures, the group uses the securitisation internal ratings-based approach ('SEC-IRBA'), securitisation external ratings-based approach ('SEC-ERBA'), or securitisation standardised approach ('SEC-SA') to determine credit risk for its banking book securitisation exposures. For counterparty credit risk ('CCR'), the group uses both the standardised (counterparty credit risk) approach ('SA-CCR') and the internal models (counterparty credit risk) ('IMM(CCR)') approach to calculate its default risk exposures for derivatives, and the comprehensive approach for securities financing transactions ('SFTs'). For market risk, the group uses an internal models ('IMM') approach to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold) exposures, and equity exposures. The group also uses an IMM approach to calculate its market risk in respect of specific risk for interest rate exposures and equity exposures. The group uses the standardised (market risk) ('STM') approach for calculating other market risk positions, as well as trading book securitisation exposures, and the standardised (operational risk) approach to calculate its operational risk.

Regulatory reporting processes and controls

The quality of regulatory reporting remains a key priority for management and regulators. We are progressing with a multi-year comprehensive programme to strengthen our processes, improve consistency, and enhance controls across regulatory reports, focusing on our prudential regulatory reporting and other priority regulatory reports.

The Banking Disclosure Statement

The group's Banking Disclosure Statement at 31 March 2024 comprises Pillar 3 information required under the framework of the Basel Committee on Banking Supervision. The disclosures are made in accordance with the latest BDR and the LAC Rules issued by the Hong Kong Monetary Authority ('HKMA'). According to the BDR and the LAC Rules, disclosure of comparative information is not required unless otherwise specified in the standard disclosure templates. Prior period disclosures can be found in the Regulatory Disclosure section of our website, www.hsbc.com.hk.

The Banking Disclosure Statement includes the majority of the information required under the BDR and the LAC Rules. The Main Features of Regulatory Capital Instruments and Non-capital LAC Debt Instruments are published as a standalone document. The remainder of the disclosure requirements are covered in the group's Annual Report and Accounts 2023 which can be found in the Regulatory Disclosure section of our website, www.hsbc.com.hk.

Loss-absorbing Capacity ('LAC') Disclosures

HSBC Asia Holdings Limited ('HAHO'), a wholly-owned subsidiary of HSBC Holdings plc and the intermediate holding company of the group, is designated as the resolution entity for the group, where adequate LAC has to be available in a form that will be bailed-in at the point of resolution. The group's LAC disclosures are included as part of this Banking Disclosure Statement while the LAC disclosures of HAHO will be included as part of the HSBC Group's disclosures which can be found in the Investors section of the Group's website, www.hsbc.com. The location of HAHO's LAC disclosures can be found in the following table:

Location of HAHO's LAC disclosures at 1Q24:

- KM2 – Key metrics of the Asian resolution group
 - Page 10 of the HSBC Group's Pillar 3 Disclosures
 - CCA(A) – Main Features of Regulatory Capital Instruments and Non-Capital LAC Debt Instruments
- A standalone document which can be found in: www.hsbc.com/investors/fixed-income-investors/regulatory-debt-main-features

Key metrics

Table 1: KM1 – Key prudential ratios

	a	b	c	d	e
			At		
	31 Mar 2024	31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023
Regulatory capital (HK\$m)¹					
1 Common Equity Tier 1 ('CET1')	512,708	508,604	491,960	499,296	510,956
2 Tier 1	566,581	562,454	545,780	553,095	564,908
3 Total capital	635,993	631,701	610,604	619,107	629,800
RWAs (HK\$m)¹					
4 Total RWAs	3,276,454	3,212,387	3,165,255	3,166,612	3,173,613
Risk-based regulatory capital ratios (as a percentage of RWA)¹					
5 CET1 ratio (%)	15.6	15.8	15.5	15.8	16.1
6 Tier 1 ratio (%)	17.3	17.5	17.2	17.5	17.8
7 Total capital ratio (%)	19.4	19.7	19.3	19.6	19.8
Additional CET1 buffer requirements (as a percentage of RWA)¹					
8 Capital conservation buffer requirement (%)	2.50	2.50	2.50	2.50	2.50
9 Countercyclical capital buffer ('CCyB') requirement (%) ²	0.56	0.56	0.57	0.57	0.56
10 Higher loss absorbency requirement (%) (applicable only to Global systemically important authorised institution ('G-SIBs') or Domestic systemically important authorised institution ('D-SIBs'))	2.50	2.50	2.50	2.50	2.50
11 Total authorised institution ('AI')-specific CET1 buffer requirements (%)	5.56	5.56	5.57	5.57	5.56
12 CET1 available after meeting the AI's minimum capital requirements (%)	11.1	11.3	11.0	11.3	11.6
Basel III leverage ratio³					
13 Total leverage ratio ('LR') exposure measure (HK\$m)	9,840,623	9,672,960	9,582,574	9,499,334	9,475,334
14 LR (%)	5.8	5.8	5.7	5.8	6.0
Liquidity Coverage Ratio ('LCR')⁴					
15 Total high quality liquid assets ('HQLA') (HK\$m)	1,945,667	1,938,900	1,968,975	1,951,506	1,896,005
16 Total net cash outflows (HK\$m)	1,205,406	1,149,294	1,217,708	1,236,386	1,215,253
17 LCR (%)	161.6	168.9	161.7	158.0	156.5
Net Stable Funding Ratio ('NSFR')⁵					
18 Total available stable funding (HK\$m)	5,629,126	5,747,599	5,533,607	5,579,672	5,646,959
19 Total required stable funding (HK\$m)	3,747,073	3,685,357	3,609,806	3,708,853	3,703,516
20 NSFR (%)	150.2	156.0	153.3	150.4	152.5

- 1 The regulatory capital, RWAs, risk-based regulatory capital ratios and additional CET1 buffer requirements above are based on or derived from the information as contained in the 'Capital Adequacy Ratio' return submitted to the HKMA on a consolidated basis under the requirements of section 3C(1) of the BCR.
- 2 The jurisdictional CCyB of Hong Kong used in the calculation of the CCyB buffer requirement has been 1.0% since 31 March 2020. The jurisdictional CCyB of other countries used in the calculation of the CCyB requirement ranged from 0% to 2.5% at 31 March 2024.
- 3 The Basel III leverage ratios are disclosed in accordance with the information contained in the 'Leverage Ratio' return submitted to the HKMA under the requirements specified in Part 1C of the BCR.
- 4 The LCRs shown are the simple average values of all working days in the reporting periods and are made in accordance with the requirements specified in the 'Liquidity Position' return submitted to the HKMA under rule 11(1) of the Banking (Liquidity) Rules ('BLR').
- 5 The NSFR disclosures are made in accordance with the information contained in the 'Stable Funding Position' return submitted to the HKMA under the requirements specified in rule 11(1) of the BLR.

Table 2: KM2(A) – Key metrics – LAC requirements for material subsidiaries

	a	b	c	d	e
	At				
	31 Mar 2024	31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023
At LAC consolidation group level					
1 Internal loss-absorbing capacity available (HK\$m)	867,205	864,931	847,264	864,323	904,573
2 Risk-weighted amount under the LAC Rules (HK\$m)	3,276,454	3,212,387	3,165,255	3,166,612	3,173,613
3 Internal LAC risk-weighted ratio (%)	26.5	26.9	26.8	27.3	28.5
4 Exposure measure under the LAC Rules (HK\$m)	9,837,444	9,669,807	9,576,735	9,493,579	9,469,537
5 Internal LAC leverage ratio (%)	8.8	8.9	8.8	9.1	9.6
6a Does the subordination exemption in the antepenultimate paragraph of Section 11 of the Financial Stability Board ('FSB') Total Loss-absorbing Capacity ('TLAC') Term Sheet apply? ¹	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
6b Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply? ¹	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
6c If the capped subordination exemption applies, the amount of funding issued that ranks <i>pari passu</i> with excluded liabilities and that is recognised as external loss-absorbing capacity, divided by funding issued that ranks <i>pari passu</i> with excluded liabilities and that would be recognised as external loss-absorbing capacity if no cap was applied (%) ¹	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

¹ The subordination exemptions in the antepenultimate and penultimate paragraphs of Section 11 of the FSB TLAC Term Sheet do not apply in Hong Kong under the LAC Rules.

Capital and RWAs

Leverage ratio

The following table shows the leverage ratio, Tier 1 capital and total exposure measure as contained in the 'Leverage Ratio' return submitted to the HKMA under the requirements specified in Part 1C of the BCR.

Table 3: LR2 – Leverage ratio

	a	b
	31 Mar 2024 HK\$m	31 Dec 2023 HK\$m
On-balance sheet exposures		
1 On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	8,253,916	7,966,649
2 Less: Asset amounts deducted in determining Tier 1 capital	(254,284)	(257,384)
3 Total on-balance sheet exposures (excluding derivative contracts and SFTs)	7,999,632	7,709,265
Exposures arising from derivative contracts		
4 Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	114,136	98,652
5 Add-on amounts for potential future exposure ('PFE') associated with all derivative contracts	341,678	294,583
7 Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	(102,454)	(93,372)
8 Less: Exempted central counterparty ('CCP') leg of client-cleared trade exposures	(35,235)	(31,362)
9 Adjusted effective notional amount of written credit-related derivative contracts	202,538	195,211
10 Less: Adjusted effective notional offsets and add-on deductions for written credit-related derivative contracts	(182,558)	(181,591)
11 Total exposures arising from derivative contracts	338,105	282,121
Exposures arising from SFTs		
12 Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	818,627	1,008,326
13 Less: Netted amounts of cash payables and cash receivables of gross SFT assets	(32,333)	(48,798)
14 CCR exposure for SFT assets	48,829	40,558
16 Total exposures arising from SFTs	835,123	1,000,086
Other off-balance sheet exposures		
17 Off-balance sheet exposure at gross notional amount	3,818,174	3,838,766
18 Less: Adjustments for conversion to credit equivalent amounts	(3,109,320)	(3,116,686)
19 Off-balance sheet items	708,854	722,080
Capital and total exposures		
20 Tier 1 capital	566,581	562,454
20a Total exposures before adjustments for specific and collective provisions	9,881,714	9,713,552
20b Adjustments for specific and collective provisions	(41,091)	(40,592)
21 Total exposures after adjustments for specific and collective provisions	9,840,623	9,672,960
Leverage ratio		
22 Leverage ratio (%) ¹	5.8	5.8

¹ Leverage ratio is the ratio of Tier 1 capital to the total exposures after adjustments for specific and collective provisions.

The leverage ratio was 5.8% at 31 March 2024. This is similar to the ratio at 31 December 2023, reflecting the impact of an increase in exposures over the quarter being offset by higher Tier 1 capital. Total exposures in the quarter increased by HK\$167.7bn, with increases in trading assets, financial investments, settlement accounts and derivative exposures being partly offset by a decrease in SFTs.

Overview of RWAs and the minimum capital requirements

Table 4: OV1 – Overview of RWAs

	a	b	c
	RWAs ¹	RWAs ¹	Minimum capital requirements ²
	31 Mar 2024 HK\$m	31 Dec 2023 HK\$m	31 Mar 2024 HK\$m
1 Credit risk for non-securitisation exposures	2,298,817	2,249,844	193,852
2 <i>of which: standardised (credit risk) ('STC') approach</i>	226,734	230,938	18,139
4 <i>of which: supervisory slotting criteria approach</i>	135,529	139,441	11,493
5 <i>of which: advanced IRB approach</i>	1,936,554	1,879,465	164,220
6 Counterparty default risk and default fund contributions	90,783	91,346	7,602
7 <i>of which: SA-CCR</i>	41,200	43,526	3,457
8 <i>of which: IMM(CCR) approach</i>	29,155	25,705	2,452
9 <i>of which: Others</i>	20,428	22,115	1,693
10 Credit valuation adjustment ('CVA') Risk	39,323	40,927	3,146
11 Equity positions in banking book under the simple risk-weight method and the internal models method	24,237	24,020	2,055
12 Collective investment scheme ('CIS') exposures – LTA	1,596	1,567	135
15 Settlement risk	36	14	3
16 Securitisation exposures in banking book	11,082	7,648	887
17 <i>of which: SEC-IRBA</i>	35	27	3
18 <i>of which: SEC-ERBA including internal assessment approach ('IAA')</i>	2,337	1,455	187
19 <i>of which: SEC-SA</i>	8,710	6,166	697
20 Market risk	154,962	158,673	12,399
21 <i>of which: STM approach</i>	1,312	1,423	107
22 <i>of which: IMM approach</i>	153,650	157,250	12,292
24 Operational risk	392,524	380,575	31,402
25 Amounts below the thresholds for deduction (subject to 250% risk weight ('RW'))	160,646	158,944	13,623
26a Deduction to RWAs	37,352	38,007	2,988
26c <i>of which: portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital</i>	37,352	38,007	2,988
27 Total	3,136,654	3,075,551	262,116

1 RWAs in this table are before the application of the 1.06 scaling factor, where applicable.

2 Minimum capital requirement represents the Pillar 1 capital charge at 8% of the RWAs after application of the 1.06 scaling factor, where applicable.

Total RWAs increased by HK\$61.1bn in the first quarter of 2024. This was driven by an increase of HK\$65.8bn from credit risk for non-securitisation exposures, principally from:

- a deterioration in asset quality of HK\$36.5bn principally due to customer risk rating migrations; and
- a higher asset size of HK\$25.4bn mainly from an underlying increase in wholesale exposures.

RWA flow statements

RWA flow statement for credit risk

Table 5: CR8 – RWA flow statement of credit risk¹ exposures under IRB approach

	a
	HK\$m
1 RWAs as at 31 Dec 2023	2,018,906
2 Asset size	24,887
3 Asset quality	36,466
4 Model updates	5,206
5 Methodology and policy	1,004
7 Foreign exchange movements	(14,386)
9 RWAs as at 31 Mar 2024	2,072,083

¹ Credit risk in this table represents the credit risk for non-securitisation exposures excluding CCR.

RWAs for credit risk exposures under the IRB approach increased by HK\$53.2bn in the first quarter of 2024. Excluding the reduction from foreign currency translation of HK\$14.4bn, the increase of HK\$67.6bn was mostly driven by:

- a deterioration in asset quality of HK\$36.5bn principally due to customer risk rating migrations; and
- a higher asset size of HK\$24.9bn mainly from an underlying increase in wholesale exposures.

RWA flow statement for CCR

Table 6: CCR7 – RWA flow statement of default risk exposures under IMM ('CCR') approach

	a
	HK\$m
1 RWAs as at 31 Dec 2023	25,705
2 Asset size	4,631
3 Credit quality of counterparties	(1,224)
4 Model updates	—
7 Foreign exchange movements	43
9 RWAs as at 31 Mar 2024	29,155

RWA flow statement for market risk

Table 7: MR2 – RWA flow statement of market risk exposures under IMM approach

	a	b	c	e	f
	Value at risk ('VaR')	Stressed VaR ('SVaR')	Incremental risk charge ('IRC')	Other	Total RWAs
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
1 RWAs as at 31 Dec 2023	23,851	61,612	34,435	37,352	157,250
2 Movement in risk levels	8,234	(12,919)	4,668	(3,848)	(3,865)
6 Foreign exchange movements	40	104	58	63	265
8 RWAs as at 31 Mar 2024	32,125	48,797	39,161	33,567	153,650

Liquidity information

The group is required to calculate its LCR on a consolidated basis in accordance with rule 11(1) of the BLR, and is required to maintain an LCR of not less than 100%.

The group's primary sources of funding are customer current accounts, customer savings deposits payable on demand or at short notice and term deposits. We issue wholesale securities (secured and unsecured) to supplement customer deposits and change the currency mix, maturity profile or location of our liabilities.

All operating entities are required to monitor their material currency liquidity position. Limits are set to ensure that outflows can be met, given assumptions on stressed capacity in the foreign exchange swap markets.

Under the terms of our current collateral obligations of derivative contracts (which are International Swaps and Derivatives Association compliant Credit Support Annex contracts), the additional collateral we would be required to post in the event of a one-notch and two-notch downgrade in our credit ratings is immaterial.

Information relating to the Bank's approach to liquidity risk management can be found in the Risk Report of the group's Annual Report and Accounts 2023.

Table 8: Average LCR

	Quarter ended
	31 Mar 2024
	%
Average LCR	161.6

Table 9: Total weighted amount of HQLA

	Weighted amount (average value at quarter ended)
	31 Mar 2024
	HK\$m
Level 1 assets	1,784,000
Level 2A assets	96,431
Level 2B assets	65,236
Total	1,945,667

Banking Disclosure Statement at 31 March 2024

Table 10: LIQ1 – Liquidity coverage ratio – for category 1 institution

		a	b
Number of data points used in calculating the average value of the LCR and related components set out in this table for the quarter ended 31 March 2024: 72		Quarter ended 31 Mar 2024	
		Unweighted value (average) HK\$m	Weighted value (average) HK\$m
Basis of disclosure: consolidated			
A	HQLA		
1	Total HQLA		1,945,667
B	Cash outflows		
2	Retail deposits and small business funding, of which:	3,732,710	354,824
3	Stable retail deposits and stable small business funding	264,000	7,953
4	Less stable retail deposits and less stable small business funding	3,468,710	346,871
5	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the AI, of which:	2,411,012	1,107,411
6	Operational deposits	737,306	179,835
7	Unsecured wholesale funding (other than small business funding) not covered in Row 6	1,663,275	917,145
8	Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period	10,431	10,431
9	Secured funding transactions (including securities swap transactions)		40,586
10	Additional requirements, of which:	1,313,597	300,852
11	Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements	158,085	158,012
12	Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions	3,759	3,759
13	Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)	1,151,753	139,081
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	185,508	185,508
15	Other contingent funding obligations (whether contractual or non-contractual)	2,642,772	24,319
16	Total cash outflows		2,013,500
C	Cash inflows		
17	Secured lending transactions (including securities swap transactions)	738,162	128,247
18	Secured and unsecured loans (other than secured lending transactions covered in Row 17) and operational deposits placed at other financial institutions	833,897	474,656
19	Other cash inflows	206,174	205,191
20	Total cash inflows	1,778,233	808,094
D	Liquidity coverage ratio (adjusted value)		
21	Total HQLA		1,945,667
22	Total net cash outflows		1,205,406
23	LCR (%)		161.6

Other information

Abbreviations

The following abbreviated terms are used throughout this document:

Currencies

HK\$m	Millions of Hong Kong dollars
HK\$bn	Billions (thousands of millions) of Hong Kong dollars

A

AI	Authorised institution
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B

BCR	Banking (Capital) Rules
BDR	Banking (Disclosure) Rules
BLR	Banking (Liquidity) Rules

C

CCP ¹	Central counterparty
CCR ¹	Counterparty credit risk
CCyB ¹	Countercyclical capital buffer
CET1 ¹	Common equity tier 1
CIS	Collective investment scheme
CVA ¹	Credit valuation adjustment

D

D-SIB	Domestic systemically important authorised institution
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F

FSB	Financial Stability Board
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G

Group	HSBC Holdings together with its subsidiary undertakings
group	The Hongkong and Shanghai Banking Corporation Limited together with its subsidiary undertakings
G-SIB ¹	Global systemically important authorised institution

H

HAHO	HSBC Asia Holdings Limited
HKMA	Hong Kong Monetary Authority
Hong Kong	The Hong Kong Special Administrative Region of the People's Republic of China
HQLA	High quality liquid assets
HSBC	HSBC Holdings together with its subsidiary undertakings
HSBC Group	HSBC Holdings together with its subsidiary undertakings

I

IAA	Internal assessment approach
IMM ¹	Internal model method
IMM(CCR)	Internal models (counterparty credit risk)
IRB ¹	Internal ratings-based approach
IRC	Incremental risk charge

L

LAC	Loss-absorbing capacity
LAC Rules	Financial Institutions (Resolution) (Loss-absorbing Capacity Requirement – Banking Sector) Rules
LCR	Liquidity coverage ratio
LR ¹	Leverage ratio
LTA	Look-through approach

M

MBA	Mandate-based approach
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N

NSFR	Net stable funding ratio
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P

PFE	Potential future exposure
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R

RWA ¹	Risk-weighted asset/risk-weighted amount
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S

SA-CCR	Standardised (counterparty credit risk) approach
SEC-ERBA	Securitisation external ratings-based approach
SEC-IRBA	Securitisation internal ratings-based approach
SEC-SA	Securitisation standardised approach
SFT	Securities financing transaction
STC	Standardised (credit risk) approach
STM	Standardised (market risk) approach
SVaR	Stressed Value at risk

T

TLAC ¹	Total loss-absorbing capacity
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V

VaR ¹	Value at risk
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¹ Full definition included in the Glossary published on HSBC website www.hsbc.com

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