

The Hongkong and Shanghai Banking Corporation Limited

**Banking Disclosure Statement at 31 March 2019
(unaudited)**

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Introduction

Purpose

The information contained in this document is for The Hongkong and Shanghai Banking Corporation Limited ('the Bank') and its subsidiaries (together 'the group'). The Banking Disclosure Statement complies with the Banking (Disclosure) Rules ('BDR') made under section 60A of the Banking 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.

While the disclosure statement is not required to be externally audited, the document has been subject to independent review in accordance with the group's policies on disclosure and its financial reporting and governance processes.

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 approach to calculate its credit risk for the majority of its non-securitisation exposures. For securitisation exposures, the group uses the securitisation internal ratings-based approach, securitisation external ratings-based approach, securitisation standardised approach or securitisation fall-back approach to determine credit risk for its banking book securitisation exposures. For counterparty credit risk, the group uses both the current exposure method and an internal models approach to calculate its default risk exposures. For market risk, the group uses an internal models 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 internal models 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) 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.

The Banking Disclosure Statement

The group's Banking Disclosure Statement at 31 March 2019 comprises information required under Pillar 3. The disclosures are made in accordance with the latest BDR issued by the HKMA.

According to the BDR, 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.

Banking Disclosure Statement at 31 Mar 2019

Table 1: KM1 – Key prudential ratios

		a	b	c	d	e
		At ¹				
		31 Mar 2019	31 Dec 2018	30 Sep 2018	30 Jun 2018	31 Mar 2018
	Footnotes					
Regulatory capital (HK\$m)						
1	Common Equity Tier 1 ('CET1')	472,760	463,774	436,665	428,578	429,683
2	Tier 1	510,575	501,503	472,590	464,537	465,593
3	Total capital	572,506	557,180	537,336	529,848	529,687
Risk-weighted assets ('RWAs') (HK\$m)						
4	Total RWAs	2,881,842	2,813,912	2,744,189	2,785,568	2,857,038
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	16.4	16.5	15.9	15.4	15.0
6	Tier 1 ratio (%)	17.7	17.8	17.2	16.7	16.3
7	Total capital ratio (%)	19.9	19.8	19.6	19.0	18.5
Additional CET1 buffer requirements (as a percentage of RWA)						
8	Capital conservation buffer requirement (%)	2.500	1.875	1.875	1.875	1.875
9	Countercyclical capital buffer (CCyB) requirement (%)	1.26	0.96	1.09	1.08	1.05
10	Higher loss absorbency requirement (%) (applicable only to G-SIBs or D-SIBs)	2.500	1.875	1.875	1.875	1.875
11	Total AI-specific CET1 buffer requirements (%)	6.26	4.71	4.84	4.83	4.80
12	CET1 available after meeting the AI's minimum capital requirements (%)	11.7	11.8	11.2	10.7	10.3
Basel III leverage ratio						
13	Total leverage ratio ('LR') exposure measure (HK\$m)	7,968,614	7,741,301	7,663,757	7,688,762	7,710,103
14	LR (%)	6.4	6.5	6.2	6.0	6.0
Liquidity Coverage Ratio ('LCR')						
15	Total high quality liquid assets ('HQLA') (HK\$m)	1,663,852	1,566,715	1,502,149	1,455,156	1,497,248
16	Total net cash outflows (HK\$m)	1,106,393	974,311	956,466	988,881	995,254
17	LCR (%)	150.5	161.0	157.2	147.2	150.5
Net Stable Funding Ratio ('NSFR')						
18	Total available stable funding (HK\$m)	4,829,714	4,789,003	4,675,909	4,693,322	4,747,483
19	Total required stable funding (HK\$m)	3,313,491	3,198,246	3,238,487	3,208,268	3,278,547
20	NSFR (%)	145.8	149.7	144.4	146.3	144.8

- 1 All figures reported are under the Hong Kong Financial Reporting Standard ('HKFRS') 9. The expected credit loss provisioning under HKFRS 9 is on a fully-loaded basis as per the HKMA requirement.
- 2 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 Banking (Capital) Rules ('BCR').
- 3 Effective from 2019, the capital conservation buffer requirement, the jurisdictional CCyB of Hong Kong used in calculation of the CCyB buffer requirement and the higher loss absorbency requirement increase from 1.875% to 2.5% in accordance with the phase-in arrangement set out by the HKMA.
- 4 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.
- 5 The Liquidity Coverage Ratios 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').
- 6 The Net Stable Funding Ratio 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.

Capital and RWAs

total exposure measure as contained in the 'Leverage Ratio' return submitted to the HKMA under the requirements specified in Part 1C of the BCR.

Leverage ratio

The following table shows the leverage ratio, tier 1 capital and

Table 2: LR2 – Leverage ratio

	a	b
	31 Mar 2019 HK\$m	31 Dec 2018 HK\$m
On-balance sheet exposures		
1 On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	6,757,886	6,595,305
2 Less: Asset amounts deducted in determining Tier 1 capital	(225,265)	(209,326)
3 Total on-balance sheet exposures (excluding derivative contracts and SFTs)	6,532,621	6,385,979
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)	36,999	40,215
5 Add-on amounts for PFE associated with all derivative contracts	356,480	347,179
8 Less: Exempted CCP leg of client-cleared trade exposures	(3,210)	(16,431)
9 Adjusted effective notional amount of written credit derivative contracts	499,376	446,279
10 Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	(490,779)	(440,677)
11 Total exposures arising from derivative contracts	398,866	376,565
Exposures arising from SFTs		
12 Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	471,943	425,427
14 CCR exposure for SFT assets	17,369	14,128
16 Total exposures arising from SFTs	489,312	439,555
Other off-balance sheet exposures		
17 Off-balance sheet exposure at gross notional amount	2,975,097	2,913,097
18 Less: Adjustments for conversion to credit equivalent amounts	(2,409,890)	(2,356,534)
19 Off-balance sheet items	565,207	556,563
Capital and total exposures		
20 Tier 1 capital	510,575	501,503
20a Total exposures before adjustments for specific and collective provisions	7,986,006	7,758,662
20b Adjustments for specific and collective provisions	(17,392)	(17,361)
21 Total exposures after adjustments for specific and collective provisions	7,968,614	7,741,301
Leverage ratio		
22 Leverage ratio	6.4%	6.5%

Overview of RWAs and the minimum capital requirements

Table 3: OV1 – Overview of RWAs

	a	b	c
	RWAs ¹		Minimum ² capital requirements
	31 Mar 2019 HK\$m	31 Dec 2018 HK\$m	31 Mar 2019 HK\$m
1 Credit risk for non-securitisation exposures	2,085,415	2,032,816	175,536
2 <i>Of which standardised credit risk ('STC') approach</i>	272,357	277,942	21,789
4 <i>Of which supervisory slotting criteria approach</i>	61,781	57,783	5,239
5 <i>Of which advanced internal ratings-based ('IRB') approach</i>	1,751,277	1,697,091	148,508
6 Counterparty default risk and default fund contributions	59,420	54,441	5,000
7a <i>Of which current exposure method ('CEM')</i>	15,160	13,801	1,279
8 <i>Of which internal models (counterparty credit risk) ('IMM(CCR)') approach</i>	31,891	30,915	2,687
9 <i>Of which Others</i>	12,369	9,725	1,034
10 Credit valuation adjustment ('CVA') Risk	26,224	22,750	2,098
11 Equity positions in banking book under the simple risk-weight method and the internal models method	27,066	18,769	2,295
15 Settlement risk	29	33	2
16 Securitisation exposures in banking book	20,032	18,342	1,603
18 <i>Of which securitisation external ratings-based approach ('SEC-ERBA') including internal assessment approach ('IAA')</i>	20,032	18,342	1,603
20 Market risk	106,104	117,823	8,489
21 <i>Of which standardised market risk ('STM') approach</i>	3,804	2,865	305
22 <i>Of which internal models ('IMM') approach</i>	102,300	114,958	8,184
24 Operational risk	332,265	325,344	26,581
25 Amounts below the thresholds for deduction (subject to 250% RW)	144,555	140,797	12,258
26a Deduction to RWAs	41,430	34,841	3,315
26b <i>Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital</i>	297	806	24
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>	41,133	34,035	3,291
27 Total	2,759,680	2,696,274	230,547

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.

Credit risk for non-securitisation exposures

RWAs increased by HK\$52,599m in the first quarter of the year, including HK\$11,216m due to foreign currency translation differences. The remaining increase was mainly due to:

- loan growth of HK\$33,242m in Hong Kong, China and Singapore; and
- HK\$ 23,892m from the adoption of HKFRS16 Leases; partially offset by
- savings from RWA initiatives of HK\$10,198m.

Market Risk

Market Risk RWAs decreased by HK\$12,658m during the first quarter of the year mainly from movement in risk levels.

RWA flow statements

RWA flow statement for credit risk

Table 4: CR8 – RWA flow statement of credit risk¹ exposures under IRB approach

	a
	HK\$m
1 RWAs as at 31 Dec 2018	1,754,874
2 Asset size	33,242
3 Asset quality	3,975
4 Model updates	(1,338)
5 Methodology and policy	13,694
7 Foreign exchange movements	8,611
9 RWAs as at 31 Mar 2019	1,813,058

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

Credit risk RWAs under the IRB approach increased by HK\$58,184m in the first quarter of the year mainly due to:

- an increase in asset size of HK\$33,242m mainly in Hong Kong, China and Singapore;
- an increase in methodology and policy of HK\$13,694m due to the adoption of HKFRS16 Leases HK\$23,892m offset by savings from RWA initiatives of HK\$10,198m;
- an increase of HK\$8,611m due to foreign currency translation differences.

RWA flow statement for counterparty credit risk

Table 5: CCR7 – RWA flow statement of default risk exposures under IMM(CCR) approach

	a
	HK\$m
1 RWAs as at 31 Dec 2018	30,915
2 Asset size	280
3 Credit quality of counterparties	626
7 Foreign exchange movements	70
9 RWAs as at 31 Mar 2019	31,891

RWA flow statement for market risk

Table 6: MR2 – RWA flow statement of market risk exposures under IMM approach

	a	b	c	e	f
	VaR	Stressed VaR	IRC	Other	Total RWAs
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
1 RWAs as at 31 Dec 2018	20,069	38,059	29,233	27,597	114,958
2 Movement in risk levels	(2,355)	(17,449)	10,716	(4,617)	(13,705)
3 Model updates/changes	(290)	1,077	–	–	787
6 Foreign exchange movements	45	86	66	63	260
8 RWAs as at 31 Mar 2019	17,469	21,773	40,015	23,043	102,300

Market Risk RWAs from internal models decreased by HK\$12,658m during the first quarter of the year mainly from movement in risk levels.

Liquidity information

The group is required to calculate its Liquidity Coverage Ratio ('LCR') on a consolidated basis in accordance with rule 11(1) of

the Banking (Liquidity) Rules. The group is required to maintain an LCR of not less than 100% from 1 January 2019.

Table 7: Average liquidity coverage ratio

	Quarter ended 31 Mar 2019 %
Average liquidity coverage ratio	150.5

The liquidity position of the group remained strong in the first quarter of 2019. The average LCR decreased from 161.0% for the quarter ending 31 December 2018 to 150.5% for the quarter ending 31 March 2019, mainly as a result of growth in customer lending.

The majority of high-quality liquid assets ('HQLA') included in the LCR are Level 1 assets as defined in the BLR and consist mainly of government debt securities.

Table 8: Total weighted amount of high-quality liquid assets

	Weighted value (average value for the quarter ended) 31 Mar 2019 HK\$m
Level 1 assets	1,581,900
Level 2A assets	73,142
Level 2B assets	8,810
Total weighted amount of HQLA	1,663,852

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

In times of stress it cannot automatically be assumed that one currency can always be converted for another, even if those currencies are 'hard' currencies. LCR is therefore assessed by single currency for those that are material. In some currencies, convertibility is restricted by regulators and central banks and this restriction results in local currency not being convertible offshore or even onshore. All operating entities are required to monitor material single currency LCR. Limits are approved and monitored by local Asset and Liability Management Committee.

Most of the group's derivative transactions are exchange rate contracts and interest rate contracts. Under the terms of our current collateral obligations under derivative contracts (which are International Swaps and Derivatives Association ('ISDA') compliant Credit Support Annex ('CSA') contracts), the additional collateral required to post in the event of a one-notch and two-notch downgrade in credit ratings is immaterial.

Information relating to the Bank's approach to liquidity risk management and its interaction with the HSBC Group's Asset, Liability and Capital Management function can be found in the Risk Report of the group's *Annual Report and Accounts 2018*.

Table 9: LIQ1 – Liquidity coverage ratio – for category 1 institution

Number of data points used in calculating the average value of the LCR and related components set out in this table for the quarter ending 31 March 2019: 73		a	b
		Quarter ended 31 Mar 2019	
		Unweighted value (average) HK\$m	Weighted value (average) HK\$m
Basis of disclosure: consolidated			
A	HQLA		
1	Total HQLA		1,663,852
B	Cash outflows		
2	Retail deposits and small business funding, of which:	3,231,932	300,729
3	<i>Stable retail deposits and stable small business funding</i>	332,747	10,810
4	<i>Less stable retail deposits and less stable small business funding</i>	2,899,185	289,919
5	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the AI, of which:	2,151,890	1,055,180
6	<i>Operational deposits</i>	594,304	145,086
7	<i>Unsecured wholesale funding (other than small business funding) not covered in Row 6</i>	1,552,631	905,139
8	<i>Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period</i>	4,955	4,955
9	Secured funding transactions (including securities swap transactions)		4,070
10	Additional requirements, of which:	477,958	151,871
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	101,516	101,492
12	<i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	875	875
13	<i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	375,567	49,504
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	215,890	215,890
15	Other contingent funding obligations (whether contractual or non-contractual)	2,761,588	17,410
16	Total cash outflows		1,745,150
C	Cash inflows		
17	Secured lending transactions (including securities swap transactions)	327,945	62,225
18	Secured and unsecured loans (other than secured lending transactions covered in Row 17) and operational deposits placed at other financial institutions	577,076	376,120
19	Other cash inflows	230,980	200,412
20	Total cash inflows	1,136,001	638,757
D	Liquidity coverage ratio (adjusted value)		
21	Total HQLA		1,663,852
22	Total net cash outflows		1,106,393
23	LCR (%)		150.5%

Other information

Abbreviations

The following abbreviated terms are used throughout this document:

Currencies

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

A

AI	Authorised institution
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B

BCBS	Basel Committee on Banking Supervision
BCR	Banking (Capital) Rules
BDR	Banking (Disclosure) Rules
BLR	Banking (Liquidity) Rules

C

CCP	Central counterparty
CCR	Counterparty credit risk
CEM	Current exposure method
CET1 ¹	Common equity tier 1
CSA ¹	Credit Support Annex
CVA	Credit valuation adjustment
CCyB	Countercyclical capital buffer

D

D-SIB	Domestic systemically important bank
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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 bank

H

HKFRS	Hong Kong Financial Reporting Standards
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

I

IAA	Internal assessment approach
IMM ¹	Internal model method
IMM(CCR)	Internal models (counterparty credit risk)
IRB ¹	Internal ratings-based approach
IRC ¹	Incremental risk charge
ISDA	International Swaps and Derivatives Association

L

LCR	Liquidity coverage ratio
LR	Leverage ratio

N

NSFR	Net stable funding ratio
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P

PFE ¹	Potential future exposure
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R

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

SEC-ERBA	Securitisation external ratings-based approach
SFT	Securities financing transaction
STC	Standardised (credit risk) approach
STM	Standardised (market risk) approach

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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