

The Hongkong and Shanghai Banking Corporation Limited

**Banking Disclosure Statement at 30 September 2018
(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 Hong Kong Monetary Authority ('HKMA') has implemented the Basel Committee on Banking Supervision ('BCBS') standards on revised Pillar 3 disclosure requirements released in January 2015 ('January 2015 standard') since 2017. In June 2018, the HKMA further amended the BDR to incorporate the BCBS Pillar 3 disclosure requirements – consolidated and enhanced framework finalised in March 2017 ('March 2017 standard'). The group has implemented the relevant updates and new requirements in accordance with the latest BDR.

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 30 Sep 2018

Table 1: KM1 – Key prudential ratios

		a	b	c	d	e
		At ¹				
		30 Sep 2018	30 Jun 2018	31 Mar 2018	31 Dec 2017	30 Sep 2017
	Footnotes					
Regulatory capital (HK\$m)						
1	Common Equity Tier 1 ('CET1')	436,665	428,578	429,683	438,693	423,873
2	Tier 1	472,590	464,537	465,593	468,021	453,771
3	Total capital	537,336	529,848	529,687	522,244	509,785
Risk-weighted assets ('RWAs') (HK\$m)						
4	Total RWAs	2,744,189	2,785,568	2,857,038	2,758,609	2,758,187
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	15.9	15.4	15.0	15.9	15.4
6	Tier 1 ratio (%)	17.2	16.7	16.3	17.0	16.5
7	Total capital ratio (%)	19.6	19.0	18.5	18.9	18.5
Additional CET1 buffer requirements (as a percentage of RWA)						
8	Capital conservation buffer requirement (%)	1.875	1.875	1.875	1.25	1.25
9	Countercyclical capital buffer requirement (%)	1.09	1.08	1.05	0.70	0.70
10	Higher loss absorbency requirement (%) (applicable only to G-SIBs or D-SIBs)	1.875	1.875	1.875	1.25	1.25
11	Total AI-specific CET1 buffer requirements (%)	4.84	4.83	4.80	3.20	3.20
12	CET1 available after meeting the AI's minimum capital requirements (%)	11.2	10.7	10.3	10.9	10.5
Basel III leverage ratio						
13	Total leverage ratio ('LR') exposure measure (HK\$m)	7,663,757	7,688,762	7,710,103	7,477,306	7,405,036
14	LR (%)	6.2	6.0	6.0	6.3	6.1
Liquidity Coverage Ratio ('LCR')						
15	Total high quality liquid assets ('HQLA') (HK\$m)	1,502,149	1,455,156	1,497,248	1,491,318	1,474,709
16	Total net cash outflows (HK\$m)	956,466	988,881	995,254	971,469	933,443
17	LCR (%)	157.2	147.2	150.5	153.6	158.0
Net Stable Funding Ratio ('NSFR')						
18	Total available stable funding (HK\$m)	4,675,908	4,693,322	4,747,483	N/A	N/A
19	Total required stable funding (HK\$m)	3,238,487	3,208,268	3,278,547	N/A	N/A
20	NSFR (%)	144.4	146.3	144.8	N/A	N/A

¹ All figures reported in 2018 are under the new Hong Kong Financial Reporting Standard 9 ('HKFRS 9'). Prior to 2018, the figures presented are reported under the Hong Kong Accounting Standard 39 ('HKAS 39').

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 The Basel III leverage ratios in 2018 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. Prior to 2018, the leverage ratios are disclosed in accordance with the 'Quarterly Template on Leverage Ratio' submitted to the HKMA during the parallel run period.

⁴ 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').

⁵ 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. The requirements have been implemented with effect from 2018 reporting periods. Accordingly, the 2017 ratios are not shown.

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
	30 Sep 2018 HK\$m	30 Jun 2018 HK\$m
On-balance sheet exposures		
1 On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	6,555,022	6,509,389
2 Less: Asset amounts deducted in determining Tier 1 capital	(211,008)	(217,131)
3 Total on-balance sheet exposures (excluding derivative contracts and SFTs)	6,344,014	6,292,258
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)	59,584	61,168
5 Add-on amounts for PFE associated with all derivative contracts	350,741	329,053
8 Less: Exempted CCP leg of client-cleared trade exposures	(5,621)	(4,799)
9 Adjusted effective notional amount of written credit derivative contracts	549,182	452,854
10 Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	(538,059)	(445,241)
11 Total exposures arising from derivative contracts	415,827	393,035
Exposures arising from SFTs		
12 Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	366,225	461,788
14 CCR exposure for SFT assets	5,027	5,096
16 Total exposures arising from SFTs	371,252	466,884
Other off-balance sheet exposures		
17 Off-balance sheet exposure at gross notional amount	2,863,881	2,856,308
18 Less: Adjustments for conversion to credit equivalent amounts	(2,313,534)	(2,303,279)
19 Off-balance sheet items	550,347	553,029
Capital and total exposures		
20 Tier 1 capital	472,590	464,537
20a Total exposures before adjustments for specific and collective provisions	7,681,440	7,705,206
20b Adjustments for specific and collective provisions	(17,683)	(16,444)
21 Total exposures after adjustments for specific and collective provisions	7,663,757	7,688,762
Leverage ratio		
22 Leverage ratio	6.2%	6.0%

The leverage ratio was 6.2% at 30 September 2018, up from 6.0% at 30 June 2018, mainly driven by an increase in Tier 1 capital.

Overview of RWAs and the minimum capital requirements

Table 3: OV1 – Overview of RWAs

	a	b	c
	RWAs ¹		Minimum ² capital requirements
	30 Sep 2018 HK\$m	30 Jun 2018 HK\$m	30 Sep 2018 HK\$m
1 Credit risk for non-securitisation exposures	1,976,558	2,027,620	166,306
2 Of which standardised credit risk ('STC') approach	272,114	281,544	21,769
4 Of which supervisory slotting criteria approach	56,153	58,201	4,762
5 Of which advanced internal ratings-based ('IRB') approach	1,648,291	1,687,875	139,775
6 Counterparty default risk and default fund contributions	58,488	62,593	4,925
7a Of which current exposure method ('CEM')	16,931	15,923	1,427
8 Of which internal models (counterparty credit risk) ('IMM(CCR)') approach	32,391	37,440	2,734
9 Of which Others	9,166	9,230	764
10 Credit valuation adjustment ('CVA') Risk	22,305	22,159	1,784
11 Equity positions in banking book under the simple risk-weight method and the internal models method	26,270	25,404	2,228
15 Settlement risk	60	123	5
16 Securitisation exposures in banking book	16,476	15,305	1,318
18 Of which securitisation external ratings-based approach ('SEC-ERBA')	16,476	15,305	1,318
20 Market risk	116,828	110,283	9,346
21 Of which standardised market risk ('STM') approach	2,294	2,728	183
22 Of which internal models ('IMM') approach	114,534	107,555	9,163
24 Operational risk	315,986	308,945	25,279
25 Amounts below the thresholds for deduction (subject to 250% RW)	133,804	133,190	11,347
26a Deduction to RWAs	37,538	37,582	3,003
26b Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	711	638	57
26c Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	36,827	36,944	2,946
27 Total	2,629,237	2,668,040	219,535

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 decreased by HK\$51,062m in the third quarter, including a decrease of HK\$22,451m due to foreign currency translation differences. The remaining decrease of HK\$28,611m was mainly due to:

- a decrease of HK\$13,901m as a result of improvements in asset quality of the wholesale portfolios; and
- a decrease of HK\$16,765m mainly due to savings from RWA initiatives and decrease in bank exposures in Hong Kong.

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 30 Jun 2018	1,746,076
2 Asset size	(11,115)
3 Asset quality	(13,901)
5 Methodology and policy	1,613
7 Foreign exchange movements	(18,229)
9 RWAs as at 30 Sep 2018	1,704,444

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 decreased by HK\$41,632m in the third quarter of the year mainly due to:

- a decrease of HK\$18,229m due to foreign currency translation differences;
- a decrease of HK\$13,901m as a result of improvements in asset quality of the wholesale portfolios;
- a decrease in asset size of HK\$11,115m mainly due to savings from RWA initiatives and decrease in bank exposures in Hong Kong.

RWA flow statement for counterparty credit risk

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

	a
	HK\$m
1 RWAs as at 30 Jun 2018	37,440
2 Asset size	(4,202)
3 Credit quality of counterparties	(738)
7 Foreign exchange movements	(109)
9 RWAs as at 30 Sep 2018	32,391

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 HK\$m	Stressed VaR HK\$m	IRC HK\$m	Other HK\$m	Total RWAs HK\$m
1 RWAs as at 30 Jun 2018	20,413	28,424	43,681	15,037	107,555
2 Movement in risk levels	4,249	3,358	(7,084)	8,166	8,689
3 Model updates/changes	(550)	(1,136)	—	289	(1,397)
6 Foreign exchange movements	(59)	(83)	(127)	(44)	(313)
8 RWAs as at 30 Sep 2018	24,053	30,563	36,470	23,448	114,534

Market Risk RWAs from internal models increased by HK\$6,979m during the third quarter of the year mainly from movements in risk levels.

Liquidity information

The Banking (Liquidity) Rules ('BLR') were introduced by the HKMA in 2014 and became effective from 1 January 2015. The group is required to calculate its Liquidity Coverage Ratio ('LCR')

on a consolidated basis in accordance with rule 11(1) of the BLR. During 2018, the group is required to maintain an LCR of not less than 90%, increasing by 10% to not less than 100% from 1 January 2019.

The average LCR for the period is as follows:

Table 7: Average liquidity coverage ratio

	Quarter ended 30 Sep 2018 %
Average liquidity coverage ratio	157.2

The liquidity position of the group remained strong in 2018. The average LCR increased from 147.2% for the quarter ending 30 June 2018 to 157.2% for the quarter ending 30 September 2018, mainly as a result of the growth in customer deposits.

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

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

	Weighted value (average value for the quarter ended) 30 Sep 2018 HK\$m
Level 1 assets	1,429,442
Level 2A assets	65,003
Level 2B assets	7,704
Total weighted amount of HQLA	1,502,149

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.

The group allows currency mismatches to provide some flexibility in managing the balance sheet structure and to carry out foreign exchange trading, on the basis that there is sufficient liquidity in the swap market to support currency conversion in periods of stress. The group sets limits on LCR by currency for all material currencies based on liquidity in the swap markets. These limits are approved and monitored by the 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 three-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 2017*.

Table 9: 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 ending 30 September 2018: 76		Quarter ended 30 Sep 2018	
		Unweighted value (average)	Weighted value (average)
		HK\$m	HK\$m
Basis of disclosure: consolidated			
A	HQLA		
1	Total HQLA		1,502,149
B	Cash outflows		
2	Retail deposits and small business funding, of which:	3,165,476	295,250
3	<i>Stable retail deposits and stable small business funding</i>	315,605	10,263
4	<i>Less stable retail deposits and less stable small business funding</i>	2,849,871	284,987
5	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the AI, of which:	2,087,794	999,274
6	<i>Operational deposits</i>	605,187	147,733
7	<i>Unsecured wholesale funding (other than small business funding) not covered in Row 6</i>	1,479,417	848,351
8	<i>Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period</i>	3,190	3,190
9	Secured funding transactions (including securities swap transactions)		2,273
10	Additional requirements, of which:	535,121	178,811
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	126,941	126,923
12	<i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	1,673	1,673
13	<i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	406,507	50,215
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	191,949	191,949
15	Other contingent funding obligations (whether contractual or non-contractual)	2,651,912	17,028
16	Total cash outflows		1,684,585
C	Cash inflows		
17	Secured lending transactions (including securities swap transactions)	366,070	73,218
18	Secured and unsecured loans (other than secured lending transactions covered in Row 17) and operational deposits placed at other financial institutions	684,758	470,129
19	Other cash inflows	186,114	184,772
20	Total cash inflows	1,236,942	728,119
D	Liquidity coverage ratio (adjusted value)		
21	Total HQLA		1,502,149
22	Total net cash outflows		956,466
23	LCR (%)		157.2%

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

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

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

HKAS	Hong Kong Accounting Standards
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

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

SA-CCR	Standardised approach for counterparty credit risk
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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