

The Hongkong and Shanghai Banking Corporation Limited

**Banking Disclosure Statement at 31 March 2020
(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 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 ('FIRO').

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 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 2020 comprises information required under the framework of the Basel Committee on Banking Supervision ('BCBS'). The disclosures are made in accordance with the latest BDR and the LAC Rules issued by the 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 all of the information required under the BDR and the LAC Rules.

Loss-absorbing Capacity Disclosures

The group's LAC disclosures are included as part of this Banking Disclosure Statement while HAHO's LAC disclosures are included as part of the HSBC Group's disclosures which can be found in the Investors section of the Group's website, <https://www.hsbc.com>. The location of HAHO's LAC disclosure can be found in the following table:

Location of HAHO's LAC disclosures at Q120:

KM2 - Key metrics of the resolution groups

- Page 8 of the HSBC Group's Pillar 3 Disclosures at 31 March 2020
-

Key metrics
Table 1: KM1 – Key prudential ratios

		a	b	c	d	e
		At				
	Footnotes	31 Mar 2020	31 Dec 2019	30 Sep 2019	30 Jun 2019	31 Mar 2019
Regulatory capital (HK\$m)						
1	Common Equity Tier 1 ('CET1')	468,406	491,641	482,522	480,610	472,760
2	Tier 1	514,224	537,460	528,254	526,297	510,575
3	Total capital	574,864	598,934	590,912	589,349	572,506
Risk-weighted assets ('RWAs') (HK\$m)						
4	Total RWAs	2,905,598	2,851,380	2,905,034	2,897,902	2,881,842
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	16.1	17.2	16.6	16.6	16.4
6	Tier 1 ratio (%)	17.7	18.8	18.2	18.2	17.7
7	Total capital ratio (%)	19.8	21.0	20.3	20.3	19.9
Additional CET1 buffer requirements (as a percentage of RWA)						
8	Capital conservation buffer requirement (%)	2.500	2.500	2.500	2.500	2.500
9	Countercyclical capital buffer (CCyB) requirement (%)	0.52	1.02	1.26	1.27	1.26
10	Higher loss absorbency requirement (%) (applicable only to G-SIBs or D-SIBs)	2.500	2.500	2.500	2.500	2.500
11	Total AI-specific CET1 buffer requirements (%)	5.52	6.02	6.26	6.27	6.26
12	CET1 available after meeting the authorised institution's ('AI's') minimum capital requirements (%)	11.6	12.7	12.1	12.1	11.7
Basel III leverage ratio						
13	Total leverage ratio ('LR') exposure measure (HK\$m)	8,185,571	8,078,204	8,039,868	8,136,588	7,968,614
14	LR (%)	6.3	6.7	6.6	6.5	6.4
Liquidity Coverage Ratio ('LCR')						
15	Total high quality liquid assets ('HQLA') (HK\$m)	1,724,361	1,619,870	1,527,910	1,583,650	1,663,852
16	Total net cash outflows (HK\$m)	1,073,924	990,793	1,021,983	1,074,261	1,106,393
17	LCR (%)	160.8	163.5	149.7	147.5	150.5
Net Stable Funding Ratio ('NSFR')						
18	Total available stable funding (HK\$m)	5,015,769	4,996,772	4,907,163	4,902,835	4,829,714
19	Total required stable funding (HK\$m)	3,502,785	3,427,503	3,452,888	3,379,361	3,313,491
20	NSFR (%)	143.2	145.8	142.1	145.1	145.8

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 Banking (Capital) Rules ('BCR').

2 The jurisdictional CCyB of Hong Kong used in the calculation of the CCyB buffer requirement was 1.0% at Q120, 2% at Q419 and 2.5% for Q119 to Q319. The reductions were in accordance with the announcements made by the HKMA on 16 March 2020 and 14 October 2019 respectively. The jurisdictional CCyB of other countries ranged from 0% to 1.75% at Q120.

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 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.

Total capital decreased by HK\$24bn in the first quarter of 2020, mainly as a result of:

- a HK\$10.6bn reduction in capital from profits net of dividend paid,
- a HK\$11.8bn unfavourable foreign currency translation differences,
- a HK\$3.8bn increase in the significant investment deduction,
- a HK\$0.7bn increase in the prudent valuation adjustment deduction, offset by
- a HK\$1.5bn increase in the fair value through other comprehensive income reserve.

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

		a	b	c	d	e
		At ¹				
		31 Mar 2020	31 Dec 2019	30 Sep 2019	30 Jun 2019	31 Mar 2019
Footnotes						
Of the group at LAC consolidation group level						
1	Internal loss-absorbing capacity available (HK\$m)	744,305	769,124	762,295	N/A	N/A
2	Risk-weighted amount under the LAC Rules (HK\$m)	2,905,598	2,851,380	2,905,034	N/A	N/A
3	Internal LAC risk-weighted ratio (%)	25.6	27.0	26.2	N/A	N/A
4	Exposure measure under the LAC Rules (HK\$m)	8,178,584	8,071,283	8,033,779	N/A	N/A
5	Internal LAC leverage ratio (%)	9.1	9.5	9.5	N/A	N/A
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?	2	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?	2	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 (%)	2	Not applicable	Not applicable	Not applicable	Not applicable

- 1 The LAC disclosures for the group commences on 30 September 2019 in accordance with the LAC Rules, accordingly the prior periods' ratios are not available.
- 2 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.

Internal loss-absorbing capacity decreased by HK\$24.8bn in the first quarter of 2020 largely from a decrease in regulatory capital of HK\$24bn and a decrease in the fair value of LAC instruments.

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 3: LR2 – Leverage ratio

	a	b	
	31 Mar 2020 HK\$m	31 Dec 2019 HK\$m	
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and securities financing transactions ('SFTs'), but including collateral)	6,845,064	6,816,117
2	Less: Asset amounts deducted in determining Tier 1 capital	(232,059)	(229,388)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	6,613,005	6,586,729
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)	77,338	34,185
5	Add-on amounts for potential future exposure ('PFE') associated with all derivative contracts	327,251	316,947
8	Less: Exempted central counterparty ('CCP') leg of client-cleared trade exposures	(4,631)	(4,274)
9	Adjusted effective notional amount of written credit derivative contracts	358,106	310,700
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	(345,275)	(296,847)
11	Total exposures arising from derivative contracts	412,789	360,711
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	578,353	534,293
14	Counterparty credit risk ('CCR') exposure for SFT assets	39,978	25,691
16	Total exposures arising from SFTs	618,331	559,984
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	3,065,610	3,110,883
18	Less: Adjustments for conversion to credit equivalent amounts	(2,499,858)	(2,521,733)
19	Off-balance sheet items	565,752	589,150
Capital and total exposures			
20	Tier 1 capital	514,224	537,460
20a	Total exposures before adjustments for specific and collective provisions	8,209,877	8,096,574
20b	Adjustments for specific and collective provisions	(24,306)	(18,370)
21	Total exposures after adjustments for specific and collective provisions	8,185,571	8,078,204
Leverage ratio			
22	Leverage ratio	6.3%	6.7%

The leverage ratio was 6.3% at 31 March 2020, a drop from 6.7% at 31 December 2019, mainly driven by a decrease in Tier 1 Capital.

Overview of RWAs and the minimum capital requirements

Table 4: OV1 – Overview of RWAs

	a	b	c
	RWAs ¹		Minimum ² capital requirements
	31 Mar 2020 HK\$m	31 Dec 2019 HK\$m	31 Mar 2020 HK\$m
1 Credit risk for non-securitisation exposures	2,070,699	2,046,521	174,532
2 <i>of which: standardised credit risk ('STC') approach</i>	221,476	229,814	17,718
4 <i>of which: supervisory slotting criteria approach</i>	66,522	64,756	5,641
5 <i>of which: advanced internal ratings-based ('IRB') approach</i>	1,782,701	1,751,951	151,173
6 Counterparty default risk and default fund contributions	74,103	58,533	6,241
7a <i>of which: current exposure method ('CEM')</i>	17,570	12,444	1,482
8 <i>of which: internal models (counterparty credit risk) ('IMM(CCR)') approach</i>	39,256	32,440	3,305
9 <i>of which: Others</i>	17,277	13,649	1,454
10 Credit valuation adjustment ('CVA') Risk	24,357	18,216	1,949
11 Equity positions in banking book under the simple risk-weight method and the internal models method	24,906	30,580	2,112
15 Settlement risk	512	14	43
16 Securitisation exposures in banking book	12,739	14,344	1,019
18 <i>of which: securitisation external ratings-based approach ('SEC-ERBA') including internal assessment approach ('IAA')</i>	10,151	11,092	812
19 <i>of which: securitisation standardised approach ('SEC-SA')</i>	2,588	3,252	207
20 Market risk	105,816	97,897	8,467
21 <i>of which: standardised market risk ('STM') approach</i>	2,486	1,663	201
22 <i>of which: internal models ('IMM') approach</i>	103,330	96,234	8,266
24 Operational risk	364,820	355,448	29,186
25 Amounts below the thresholds for deduction (subject to 250% RW)	144,396	149,267	12,245
26a Deduction to RWAs	41,823	42,253	3,346
26b <i>of which: portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital</i>	458	409	37
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>	41,365	41,844	3,309
27 Total	2,780,525	2,728,567	232,448

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\$24,178m in the first quarter of 2020, including a decrease of HK\$41,991m from foreign currency translation differences. Excluding the foreign currency translation differences, the increase of HK\$66,169m was primarily driven by:

- an increase of HK\$62,026m from corporate loans mainly in Hong Kong and mainland China;
- an increase of HK\$18,474m from bank exposures; partly offset by
- HK\$14,715m from RWA saving initiatives.

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 2019	1,816,707
2 Asset size	51,410
3 Asset quality	18,845
5 Methodology and policy	(4,141)
7 Foreign exchange movements	(33,598)
9 RWAs as at 31 Mar 2020	1,849,223

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

RWAs under the IRB approach increased by HK\$32,516m in the first quarter of 2020, including a decrease in foreign currency translation differences of HK\$33,598m. Excluding the foreign currency translation differences, the increase of HK\$66,114m was mainly due to:

- an increase of HK\$51,410m in asset size mainly driven by growth of HK\$44,164m in corporate loan books mainly from Hong Kong and mainland China coupled with an increase of HK\$17,902m from lending to banks. The increase was partly offset by savings of HK\$4,610m from RWA initiatives;
- an increase of HK\$18,845m from asset quality mainly due to unfavorable credit rating movements in the corporate portfolio in Hong Kong; partly offset by
- a decrease of HK\$4,141m in methodology and policy mainly from RWA initiatives.

RWA flow statement for counterparty credit risk

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

	a
	HK\$m
1 RWAs as at 31 Dec 2019	32,440
2 Asset size	8,014
3 Credit quality of counterparties	(1,045)
7 Foreign exchange movements	(153)
9 RWAs as at 31 Mar 2020	39,256

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	Incremental risk charge ('IRC')	Other	Total RWAs
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
1 RWAs as at 31 Dec 2019	17,663	22,704	34,498	21,369	96,234
2 Movement in risk levels	3,661	(652)	4,831	(553)	7,287
3 Model updates/changes	93	202	–	(32)	263
6 Foreign exchange movements	(83)	(107)	(163)	(101)	(454)
8 RWAs as at 31 Mar 2020	21,334	22,147	39,166	20,683	103,330

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%.

Table 8: Average liquidity coverage ratio

	Quarter ended
	31 Mar 2020
	%
Average liquidity coverage ratio	160.8

The liquidity position of the group remained strong in the first quarter of 2020. The average LCR decreased slightly from 163.5% for the quarter ended 31 December 2019 to 160.8% for the quarter

ended 31 March 2020. 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 9: Total weighted amount of high-quality liquid assets

	Weighted value (average value for the quarter ended)
	31 Mar 2020
	HK\$m
Level 1 assets	1,594,685
Level 2A assets	84,592
Level 2B assets	45,084
Total weighted amount of HQLA	1,724,361

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

All operating entities are required to monitor material single currency LCR. 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 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 2019*.

Banking Disclosure Statement at 31 March 2020

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

		a	b
		Quarter ended 31 Mar 2020	
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 2020: 74		Unweighted value (average) HK\$m	Weighted value (average) HK\$m
Basis of disclosure: consolidated			
A	HQLA		
1	Total HQLA		1,724,361
B	Cash outflows		
2	Retail deposits and small business funding, of which:	3,285,366	307,540
3	<i>Stable retail deposits and stable small business funding</i>	302,753	9,279
4	<i>Less stable retail deposits and less stable small business funding</i>	2,982,613	298,261
5	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the AI, of which:	2,203,916	1,057,884
6	<i>Operational deposits</i>	573,610	140,033
7	<i>Unsecured wholesale funding (other than small business funding) not covered in Row 6</i>	1,616,931	904,476
8	<i>Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period</i>	13,375	13,375
9	Secured funding transactions (including securities swap transactions)		3,167
10	Additional requirements, of which:	526,250	209,655
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	161,477	161,249
12	<i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	757	757
13	<i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	364,016	47,649
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	183,038	182,790
15	Other contingent funding obligations (whether contractual or non-contractual)	3,046,161	20,988
16	Total cash outflows		1,782,024
C	Cash inflows		
17	Secured lending transactions (including securities swap transactions)	381,982	80,331
18	Secured and unsecured loans (other than secured lending transactions covered in Row 17) and operational deposits placed at other financial institutions	590,663	389,552
19	Other cash inflows	266,684	238,217
20	Total cash inflows	1,239,329	708,100
D	Liquidity coverage ratio (adjusted value)		
21	Total HQLA		1,724,361
22	Total net cash outflows		1,073,924
23	LCR (%)		160.8

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
CCyB	Countercyclical capital buffer
CEM	Current exposure method
CET1	Common equity tier 1
CSA1	Credit Support Annex
CVA	Credit valuation adjustment

D

D-SIB	Domestic systemically important bank
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F

FIRO	The Financial Institutions (Resolution) Ordinance
FSB	Financial Stability Board

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

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

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

LAC	Loss-absorbing capacity
LAC Rules	Financial Institutions (Resolution) (Loss-absorbing Capacity Requirement – Banking Sector) Rules
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
SEC-SA	Securitisation standardised approach
SFT	Securities financing transaction
STC	Standardised (credit risk) approach
STM	Standardised (market risk) approach

T

TLAC	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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