

# The Hongkong and Shanghai Banking Corporation Limited

**Banking Disclosure Statement at 30 June 2021  
(unaudited)**

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*Prefixes contained in the table names, where applicable, represent the reference codes of the standard disclosure templates and tables for the Revised Pillar 3 Framework issued by the Hong Kong Monetary Authority ('HKMA').*

## 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'). It should be read in conjunction with the group's *Interim Report 2021*. The group's *Interim Report 2021*, 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 ('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. Information regarding subsidiaries that are not included in the consolidation for regulatory purposes is set out in the 'Basis of consolidation' section in this document.

The information in this document is not audited and does not constitute statutory accounts.

## The Banking Disclosure Statement

The group's Banking Disclosure Statement at 30 June 2021 comprises Pillar 3 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](http://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 *Interim Report 2021*. All the group's banking disclosures can be found in the Regulatory Disclosure section of our website, [www.hsbc.com.hk](http://www.hsbc.com.hk).

## Loss-absorbing Capacity Disclosures

The group's loss-absorbing capacity ('LAC') disclosures are included as part of this Banking Disclosure Statement while the LAC disclosures of HSBC Asia Holdings Limited ('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](http://www.hsbc.com). The location of HAHO's LAC disclosure can be found in the following table:

### Location of HAHO's LAC disclosures in 2021:

KM2 – Key metrics of the Asian resolution group

- Table 11.ii of the Group's Pillar 3 Disclosures

TLAC1 – TLAC composition

- Table 12 of the Group's Pillar 3 Disclosures

TLAC3 – HSBC Asia Holdings Limited Creditor Ranking

- Table 16 of the 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-capital-securities](http://www.hsbc.com/investors/fixed-income-investors/regulatory-capital-securities)

## Key Metrics

Table 1: KM1 – Key prudential ratios

		a	b	c	d	e
		At				
		30 Jun 2021	31 Mar 2021	31 Dec 2020	30 Sep 2020	30 Jun 2020
	Footnotes					
<b>Regulatory capital (HK\$m)</b>						
1	Common Equity Tier 1 ('CET1')	<b>488,897</b>	496,026	509,452	505,315	491,594
2	Tier 1	<b>535,060</b>	542,161	555,553	551,305	537,507
3	Total capital	<b>595,374</b>	601,024	614,545	610,902	596,815
<b>Risk-weighted assets ('RWAs') (HK\$m)</b>						
4	Total RWAs	<b>3,117,666</b>	3,011,181	2,956,993	3,029,053	2,942,719
<b>Risk-based regulatory capital ratios (as a percentage of RWA)</b>						
5	CET1 ratio (%)	<b>15.7</b>	16.5	17.2	16.7	16.7
6	Tier 1 ratio (%)	<b>17.2</b>	18.0	18.8	18.2	18.3
7	Total capital ratio (%)	<b>19.1</b>	20.0	20.8	20.2	20.3
<b>Additional CET1 buffer requirements (as a percentage of RWA)</b>						
8	Capital conservation buffer requirement (%)	<b>2.50</b>	2.50	2.50	2.50	2.50
9	Countercyclical capital buffer ('CCyB') requirement (%)	<b>0.52</b>	0.51	0.51	0.53	0.52
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	<b>2.50</b>	2.50	2.50	2.50	2.50
11	Total authorised institution ('AI')-specific CET1 buffer requirements	<b>5.52</b>	5.51	5.51	5.53	5.52
12	CET1 available after meeting the AI's minimum capital requirements (%)	<b>11.1</b>	12.0	12.7	12.2	12.2
<b>Basel III leverage ratio</b>						
13	Total leverage ratio ('LR') exposure measure (HK\$m)	<b>9,068,163</b>	8,895,440	8,705,672	8,659,463	8,474,009
14	LR (%)	<b>5.9</b>	6.1	6.4	6.4	6.3
<b>Liquidity Coverage Ratio ('LCR')</b>						
15	Total high quality liquid assets ('HQLA') (HK\$m)	<b>1,950,607</b>	2,021,618	1,982,999	1,940,757	1,730,870
16	Total net cash outflows (HK\$m)	<b>1,236,236</b>	1,258,857	1,154,822	1,141,000	1,067,926
17	LCR (%)	<b>157.9</b>	160.7	172.1	170.4	162.0
<b>Net Stable Funding Ratio ('NSFR')</b>						
18	Total available stable funding (HK\$m)	<b>5,365,697</b>	5,337,445	5,388,197	5,211,670	5,145,116
19	Total required stable funding (HK\$m)	<b>3,569,865</b>	3,441,318	3,382,462	3,417,697	3,421,671
20	NSFR (%)	<b>150.3</b>	155.1	159.3	152.5	150.4

- 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% since 31 March 2020. The JCCyB of other countries used in the calculation of the CCyB requirement ranged from 0% to 1% at 30 June 2021.
- 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.

## Structure of the regulatory group

### Basis of consolidation

The basis of consolidation for financial accounting purposes is in accordance with Hong Kong Financial Reporting Standards ('HKFRS'), as described in Note 1 on the financial statements in the group's *Annual Report and Accounts 2020*.

The basis of consolidation for regulatory purposes is different from that for accounting purposes. Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C(1) of the BCR. Subsidiaries not included in consolidation for regulatory purposes are securities and insurance companies that are authorised and supervised by regulators, and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the BCR and the Banking Ordinance. The capital invested by the group in these subsidiaries is deducted from the capital base, subject to threshold, as determined in accordance with Part 3 of the BCR.

For insurance entities, the present value of in-force long-term insurance business asset of HK\$63,526m and the related deferred

tax liability are only recognised on consolidation in financial reporting and are therefore not included in the asset or equity positions for the stand-alone entities presented in the below table.

There are no subsidiaries that are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation at 30 June 2021.

For all subsidiaries included in both the accounting and regulatory scope of consolidation, the same consolidation methodology is applied at 30 June 2021.

The group operates subsidiaries in a number of countries and territories where capital is governed by local rules, and there may be restrictions on the transfer of regulatory capital and funds between members of the banking group.

The Bank and its banking subsidiaries maintain regulatory reserves to satisfy the provisions of the Banking Ordinance and local regulatory requirements for prudential supervision purposes. At 30 June 2021, the effect of this requirement is to reduce the amount of reserves which can be distributed to shareholders by HK\$20,097m.

Table 2: List of subsidiaries outside the regulatory scope of consolidation

Principal activities	At 30 Jun 2021		
	Total assets	Total equity	
	HK\$m	HK\$m	
HSBC Broking Futures (Hong Kong) Ltd	<b>Futures broking</b>	<b>4,807</b>	<b>617</b>
HSBC Broking Services (Asia) Ltd and its subsidiaries	<b>Broking services</b>	<b>25,323</b>	<b>3,039</b>
HSBC Corporate Advisory (Malaysia) Sdn Bhd	<b>Financial services</b>	<b>7</b>	<b>6</b>
HSBC Corporate Finance (Hong Kong) Ltd	<b>Financial services</b>	<b>15</b>	<b>13</b>
HSBC Global Asset Management Holdings (Bahamas) Ltd	<b>Asset management</b>	<b>129</b>	<b>127</b>
HSBC Global Asset Management (Hong Kong) Ltd	<b>Asset management</b>	<b>1,119</b>	<b>686</b>
HSBC Global Asset Management (Japan) K.K.	<b>Asset management</b>	<b>277</b>	<b>133</b>
HSBC Global Asset Management (Singapore) Ltd	<b>Asset management</b>	<b>113</b>	<b>53</b>
HSBC Insurance (Asia-Pacific) Holdings Ltd and its subsidiaries	<b>Insurance</b>	<b>566,362</b>	<b>41,467</b>
HSBC InvestDirect (India) Private Ltd and its subsidiaries	<b>Financial services</b>	<b>945</b>	<b>937</b>
HSBC Investment Funds (Hong Kong) Ltd	<b>Asset management</b>	<b>605</b>	<b>274</b>
HSBC Qianhai Securities Ltd	<b>Securities services</b>	<b>1,771</b>	<b>1,291</b>
HSBC Securities (Asia) Ltd and its subsidiary <sup>1</sup>	<b>Broking services</b>	<b>0</b>	<b>0</b>
HSBC Securities (Japan) Ltd	<b>Broking services</b>	<b>229,617</b>	<b>1,065</b>
HSBC Securities (Singapore) Pte Ltd	<b>Broking services</b>	<b>406</b>	<b>84</b>
HSBC Securities Brokers (Asia) Ltd	<b>Broking services</b>	<b>8,435</b>	<b>4,012</b>
Hang Seng Insurance Co. Ltd and its subsidiaries	<b>Insurance</b>	<b>180,312</b>	<b>14,512</b>
Hang Seng Investment Management Ltd	<b>Asset management</b>	<b>477</b>	<b>442</b>
Hang Seng Investment Services Ltd	<b>Investment services</b>	<b>9</b>	<b>9</b>
Hang Seng Qianhai Fund Management Co. Ltd	<b>Asset management</b>	<b>314</b>	<b>300</b>
Hang Seng Securities Ltd	<b>Broking services</b>	<b>3,198</b>	<b>789</b>

<sup>1</sup> In members' voluntary liquidation.

The approaches used in calculating the group's regulatory capital and RWAs are in accordance with the 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 securitisation exposures, the group uses the securitisation internal ratings-based approach ('SEC-IRBA'), securitisation external ratings-based approach ('SEC-ERBA'), securitisation standardised approach ('SEC-SA') or securitisation fall-back approach ('SEC-FBA') 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) approach ('IMM(CCR)') approach to calculate its default risk exposures. For market risk, the group uses an 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) ('STO') approach to calculate its operational risk.

## Balance sheet reconciliation

The following table expands the balance sheet under the regulatory scope of consolidation to show separately the capital components that are reported in the 'Composition of regulatory capital disclosures' template in Table 4. The capital components in this table contain a reference that shows how these amounts are included in Table 4.

Table 3: CC2 – Reconciliation of regulatory capital to balance sheet

	a	b	c
	At 30 Jun 2021		
	Balance sheet as in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m	Cross-referenced to definition of Capital Components
<b>Assets</b>			
Cash and sight balances at central banks	285,708	285,009	
Items in the course of collection from other banks	57,966	57,966	
Hong Kong Government certificates of indebtedness	325,224	325,224	
Trading assets	678,226	677,368	
<i>of which: significant Loss-absorbing capacity ('LAC') investments eligible as Additional Tier1 ('AT1') capital issued by financial sector entities</i>		2	1
<i>of which: significant LAC investments eligible as Tier 2 capital issued by financial sector entities</i>		137	2
Derivatives	349,914	350,142	
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	196,564	4,363	
Reverse repurchase agreements – non-trading	630,901	410,829	
Loans and advances to banks	454,693	444,141	
Loans and advances to customers	3,901,132	3,875,163	
<i>of which: impairment allowances eligible for inclusion in Tier 2 capital</i>		(5,669)	3
Financial investments	1,993,524	1,539,336	
Amounts due from Group companies	151,411	405,821	
<i>of which: significant LAC investments eligible as Tier 2 capital issued by financial sector entities</i>		7,625	4
Investments in subsidiaries		17,729	
Interests in associates and joint ventures	181,750	178,249	
<i>of which: goodwill</i>		3,964	5
<i>of which: significant LAC investments in financial sector entities exceeding 10% threshold</i>		132,745	6
Goodwill and intangible assets	90,296	23,840	
<i>of which: goodwill</i>		4,827	7
<i>of which: intangible assets</i>		19,013	8
Property, plant and equipment	129,039	122,085	
Deferred tax assets	3,549	3,432	
<i>of which: deferred tax assets net of related tax liabilities</i>		3,517	9
<i>of which: deferred tax liabilities related to goodwill</i>		(72)	10
<i>of which: deferred tax liabilities related to intangible assets</i>		(13)	11
Prepayments, accrued income and other assets	334,124	233,865	
<i>of which: defined benefit pension fund net assets</i>		26	12
<b>Total assets</b>	<b>9,764,021</b>	<b>8,954,562</b>	

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Table 3: CC2 – Reconciliation of regulatory capital to balance sheet (continued)

	a	b	c
	At 30 Jun 2021		
	Balance sheet in published financial statements HK\$m	Under regulatory scope of consolidation HK\$m	Cross-referenced to definition of Capital Components
<b>Liabilities</b>			
Hong Kong currency notes in circulation	325,224	325,224	
Items in the course of transmission to other banks	106,209	106,209	
Repurchase agreements – non-trading	236,509	236,496	
Deposits by banks	311,257	311,257	
Customer accounts	5,901,495	5,899,389	
Trading liabilities	89,742	89,742	
Derivatives	322,876	323,383	
<i>of which: gains and losses due to changes in own credit risk on fair valued liabilities</i>		(260)	13
Financial liabilities designated at fair value	164,318	125,888	
<i>of which: gains and losses due to changes in own credit risk on fair valued liabilities</i>		77	14
Debt securities in issue	75,467	75,467	
Retirement benefit liabilities	1,858	1,858	
Amounts due to Group companies	361,732	386,412	
<i>of which: qualifying Tier 2 capital instruments</i>		15,345	15
<i>of which: gains and losses due to changes in own credit risk on fair valued liabilities</i>		2,420	16
Accruals and deferred income, other liabilities and provisions	300,203	237,400	
Liabilities under insurance contracts	613,439		
Current tax liabilities	3,945	1,465	
Deferred tax liabilities	32,213	21,445	
<i>of which: deferred tax liabilities related to goodwill</i>		5	17
<i>of which: deferred tax liabilities related to intangible assets</i>		2,901	18
<i>of which: deferred tax liabilities related to defined benefit pension fund net assets</i>		4	19
Subordinated liabilities	4,041	4,041	
<i>of which: portion eligible for Tier 2 capital instruments, subject to phase-out arrangements</i>		3,106	20
<b>Total liabilities</b>	<b>8,850,528</b>	<b>8,145,676</b>	
<b>Equity</b>			
Share capital	172,335	172,335	
<i>of which: portion eligible for inclusion in CET1 capital</i>		170,881	21
<i>of which: revaluation reserve capitalisation issue</i>		1,454	22
Other equity instruments	44,615	44,615	
<i>of which: qualifying Additional tier 1 ('AT1') capital instruments</i>		44,615	23
Other reserves	146,045	141,709	24
<i>of which: fair value gains arising from revaluation of land and buildings</i>		62,921	25
<i>of which: cash flow hedging reserves</i>		20	26
<i>of which: valuation adjustment</i>		20	27
Retained earnings	484,042	395,315	28
<i>of which: regulatory reserve for general banking risks</i>		20,097	29
<i>of which: regulatory reserve eligible for inclusion in Tier 2 capital</i>		11,964	30
<i>of which: fair value gains arising from revaluation of land and buildings</i>		4,180	31
<i>of which: valuation adjustment</i>		1,893	32
Total shareholders' equity	847,037	753,974	
Non-controlling interests	66,456	54,912	
<i>of which: portion allowable in CET1 capital</i>		28,983	33
<i>of which: portion allowable in AT1 capital</i>		1,550	34
<i>of which: portion allowable in Tier 2 capital</i>		1,142	35
<b>Total equity</b>	<b>913,493</b>	<b>808,886</b>	
<b>Total liabilities and equity</b>	<b>9,764,021</b>	<b>8,954,562</b>	



## Capital and RWAs

### Regulatory capital disclosures

The following table sets out the detailed composition of the group's regulatory capital using the 'Composition of regulatory capital disclosures' template, as specified by the HKMA.

Table 4: CC1 – Composition of regulatory capital

	a	b
	<b>At 30 Jun 2021</b>	
	<b>Component of regulatory capital</b>	Cross-referenced to Table 3
	<b>HK\$m</b>	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
<b>CET1 capital: instruments and reserves</b>		
1	170,881	21
2	395,315	28
3	141,709	24
5	28,983	33
6	<b>736,888</b>	
<b>CET1 capital: regulatory deductions</b>		
7	1,913	27+32
8	8,714	5+7+10-17
9	16,099	8+11-18
10	3,517	9
11	20	26
14	(2,237)	-(13+14+16)
15	22	12-19
19	132,745	6
26	87,198	
26a	67,101	25+31
26b	20,097	29
28	<b>247,991</b>	
29	<b>488,897</b>	
<b>AT1 capital: instruments</b>		
30	44,615	23
31	44,615	23
34	1,550	34
36	<b>46,165</b>	
<b>AT1 capital: regulatory deductions</b>		
40	2	1
43	<b>2</b>	
44	<b>46,163</b>	
45	<b>535,060</b>	
<b>Tier 2 capital: instruments and provisions</b>		
46	15,345	15
47	3,106	20
48	1,142	35
50	17,633	30-3
51	<b>37,226</b>	
<b>Tier 2 capital: regulatory deductions</b>		
55	7,762	2+4
56	(30,850)	
56a	(30,850)	(22+25+31)x45%
57	<b>(23,088)</b>	
58	<b>60,314</b>	
59	<b>595,374</b>	
60	<b>3,117,666</b>	

**Table 4: CC1 – Composition of regulatory capital (continued)**

		a	b
		<b>At 30 Jun 2021</b>	
		<b>Component of regulatory capital</b>	Cross-referenced to Table 3
		<b>HK\$m</b>	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
<b>Capital ratios (as a percentage of RWA)</b>			
61	CET1 capital ratio	<b>15.7%</b>	
62	Tier 1 capital ratio	<b>17.2%</b>	
63	Total capital ratio	<b>19.1%</b>	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	<b>5.52%</b>	
65	<i>of which: capital conservation buffer requirement</i>	<b>2.50%</b>	
66	<i>of which: bank specific countercyclical capital buffer requirement</i>	<b>0.52%</b>	
67	<i>of which: higher loss absorbency requirement</i>	<b>2.50%</b>	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	<b>11.1%</b>	
<b>Amounts below the thresholds for deduction (before risk weighting)</b>			
72	Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation	<b>27,885</b>	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	<b>62,164</b>	
<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the basic indicator ('BSC') approach, or the standardise (credit risk) ('STC') approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	<b>3,530</b>	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	<b>3,813</b>	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	<b>15,363</b>	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	<b>14,102</b>	
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>			
84	Current cap on Tier 2 capital instruments subject to phase-out arrangements	<b>4,558</b>	

CET1 capital decreased in the first half of 2021 by HK\$20.5bn, mainly due to:

- a HK\$12.9bn increase in the threshold deduction for significant investments in financial sector entities;
- a HK\$3.8bn decrease in financial assets measured at fair value through other comprehensive income;
- a HK\$2.2bn decrease from regulatory profits, net of dividends; and
- a HK\$2.0bn increase in the regulatory reserve deduction.

**Table 4: CC1 – Composition of regulatory capital (continued)**

Notes to the template:

		At 30 Jun 2021	
		Hong Kong basis	Basel III basis
		HK\$m	HK\$m
10	Deferred tax assets (net of associated deferred tax liabilities)	3,517	454

Explanation:

As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), Deferred Tax Assets ('DTAs') of the bank to be realised are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III.

The amount reported under the column 'Basel III basis' in this box represents the amount reported in row 10 (i.e. the amount reported under the 'Hong Kong basis') adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for Mortgage Servicing Rights ('MSRs'), DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.

		At 30 Jun 2021	
		Hong Kong basis	Basel III basis
		HK\$m	HK\$m
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	132,745	130,857

Explanation:

For the purpose of determining the total amount of significant LAC investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the HKMA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business.

Therefore, the amount to be deducted as reported in row 19 may be greater than that required under Basel III. The amount reported under the column 'Basel III basis' in this box represents the amount reported in row 19 (i.e. the amount reported under the 'Hong Kong basis') adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.

Remarks:

The amount of the 10% threshold is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.

**Table 5: CCA – Capital instruments**

		At 30 Jun 2021	
		Total amount	Amount recognised in regulatory capital
			HK\$m
<b>CET1 capital instruments</b>			
	Ordinary shares	HK\$172,335m	170,881
<b>AT1 capital instruments</b>			
	Fixed rate perpetual subordinated loans, callable from 2024	US\$1,100m	8,617
	Fixed rate perpetual subordinated loans, callable from 2024	US\$900m	7,044
	Fixed rate perpetual subordinated loans, callable from 2025	US\$1,000m	7,834
	Fixed rate perpetual subordinated loans, callable from 2025	US\$700m	5,467
	Fixed rate perpetual subordinated loans, callable from 2025	US\$500m	3,905
	Fixed rate perpetual subordinated loans, callable from 2026	US\$900m	7,063
	Fixed rate perpetual subordinated loans, callable from 2027	US\$600m	4,685
<b>Tier 2 capital instruments</b>			
	Primary capital undated floating rate notes	US\$400m	3,106
	Subordinated loan due 2030, callable from 2025	US\$1,000m	8,562
	Subordinated loan due 2030, callable from 2025	US\$180m	1,554
	Subordinated loan due 2031, callable from 2026	US\$600m	5,230

A description of the main features and the full terms and conditions of the group's capital instruments can be found in the Regulatory Disclosures section of our website, [www.hsbc.com.hk](http://www.hsbc.com.hk).

**Countercyclical capital buffer ratio**

The CCyB is calculated as the weighted average of the applicable CCyB ratios in effect in the jurisdictions in which banks have private sector credit exposures. The group uses country of business as the basis of geographical allocation for the majority of its credit risk and risk country for market risk, which is defined by considering the country of incorporation, location of guarantor, headquarter domicile, distribution of revenue and booking country.

**Table 6: CCyB1 – Geographical distribution of credit exposures used in countercyclical capital buffer**

Geographical breakdown by Jurisdiction (J)		Footnotes	a	c	d	e
			At 30 Jun 2021			
			Applicable JCCyB ratio in effect	RWAs used in computation of CCyB ratio	AI-specific CCyB ratio	CCyB amount
			%	HK\$m	%	HK\$m
1	Hong Kong	1	1.00	1,175,721		
2	Bulgaria		0.50	2		
3	Czech Republic		0.50	52		
4	Luxembourg		0.50	3,441		
5	Norway		1.00	173		
6	Slovakia		1.00	1		
<b>Sum</b>		2		<b>1,179,390</b>		
<b>Total</b>		3		<b>2,274,491</b>	<b>0.52</b>	<b>16,143</b>

1 The jurisdictional CCyB of Hong Kong used in the calculation of the CCyB buffer requirement was 1.0% since 31 March 2020. The JCCyB of other countries used in the calculation of the CCyB requirement ranged from 0% to 1% at 30 June 2021.

2 This represents the sum of RWAs for the private sector credit exposures in jurisdictions with a non-zero countercyclical buffer rate.

3 The total RWAs used in the computation of the CCyB ratio in column (c) represents the total RWAs for the private sector credit exposures in all jurisdictions to which the group is exposed, including jurisdictions with no countercyclical buffer rate or with a countercyclical buffer rate set at zero. The CCyB amount in column (e) represents the group's total RWAs in row 4 of Table 1 of this document multiplied by the group specific CCyB ratio in column (d).

RWAs in Hong Kong increased over the first half of 2021 due to loans related to initial public offerings ('IPO') and from growth in corporate exposures.

## 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 7: LR2 – Leverage ratio

	a	b	
	30 Jun 2021 HK\$m	31 Mar 2021 HK\$m	
<b>On-balance sheet exposures</b>			
1	On-balance sheet exposures (excluding those arising from derivative contracts and securities financing transactions ('SFTs'), but including collateral)	7,450,830	7,312,997
2	Less: Asset amounts deducted in determining Tier 1 capital	(251,685)	(241,202)
3	<b>Total on-balance sheet exposures (excluding derivative contracts and SFTs)</b>	<b>7,199,145</b>	<b>7,071,795</b>
<b>Exposures arising from derivative contracts</b>			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	78,024	99,649
5	Add-on amounts for potential future exposure ('PFE') associated with all derivative contracts	312,502	297,816
8	Less: Exempted central counterparty ('CCP') leg of client-cleared trade exposures	(3,287)	(5,662)
9	Adjusted effective notional amount of written credit-related derivative contracts	196,634	252,776
10	Less: Adjusted effective notional offsets and add-on deductions for written credit-related derivative contracts	(180,356)	(235,792)
11	<b>Total exposures arising from derivative contracts</b>	<b>403,517</b>	<b>408,787</b>
<b>Exposures arising from SFTs</b>			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	875,971	779,686
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	(21,686)	(23,368)
14	CCR exposure for SFT assets	20,073	71,234
16	<b>Total exposures arising from SFTs</b>	<b>874,358</b>	<b>827,552</b>
<b>Other off-balance sheet exposures</b>			
17	Off-balance sheet exposure at gross notional amount	3,203,509	3,210,740
18	Less: Adjustments for conversion to credit equivalent amounts	(2,582,310)	(2,593,776)
19	Off-balance sheet items	621,199	616,964
<b>Capital and total exposures</b>			
20	<b>Tier 1 capital</b>	<b>535,060</b>	<b>542,161</b>
20a	Total exposures before adjustments for specific and collective provisions	9,098,219	8,925,098
20b	Adjustments for specific and collective provisions	(30,056)	(29,658)
21	<b>Total exposures after adjustments for specific and collective provisions</b>	<b>9,068,163</b>	<b>8,895,440</b>
<b>Leverage ratio</b>			
22	Leverage ratio	5.9%	6.1%

Total exposures increased by HK\$172.7bn over the second quarter of 2021 primarily due to an additional HK\$86.3bn in loans related to IPOs, together with increases of HK\$46.8bn in SFTs resulting from higher demand for reverse repo trades.

Table 8: LR1 – Summary comparison of accounting assets against leverage ratio exposure measure

	a	
	Value under the LR framework	
	30 Jun 2021 HK\$m	
<b>Item</b>		
1	Total consolidated assets as per published financial statements	9,764,021
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(760,809)
4	Adjustments for derivative contracts	53,375
5	Adjustment for SFTs (i.e. repos and similar secured lending)	20,073
6	Adjustment for off-balance sheet ('OBS') items (i.e. conversion to credit equivalent amounts of OBS exposures)	621,199
6a	Adjustments for prudent valuation adjustments and specific and collective provisions that are allowed to be excluded from exposure measure	(3,035)
7	Other adjustments	(626,661)
8	<b>Leverage ratio exposure measure</b>	<b>9,068,163</b>

Other adjustments mainly represent the Hong Kong Government certificates of indebtedness and assets deducted in determining Tier 1 capital. These are excluded for deriving the leverage ratio exposure measure in accordance with the HKMA requirements specified in Part 1C of the BCR.

**Overview of RWAs and the minimum capital requirements**
**Table 9: OV1 – Overview of RWAs**

	a	b	c
	RWAs <sup>1</sup>	RWAs <sup>1</sup>	Minimum <sup>2</sup> capital requirements
	30 Jun 2021 HK\$m	31 Mar 2021 HK\$m	30 Jun 2021 HK\$m
1 <b>Credit risk for non-securitisation exposures</b>	<b>2,232,251</b>	2,128,119	<b>187,933</b>
2 <i>of which: STC approach</i>	<b>283,500</b>	227,955	<b>22,680</b>
4 <i>of which: supervisory slotting criteria approach</i>	<b>77,940</b>	70,761	<b>6,609</b>
5 <i>of which: advanced IRB approach</i>	<b>1,870,811</b>	1,829,403	<b>158,644</b>
6 <b>Counterparty default risk and default fund contributions</b>	<b>98,169</b>	88,187	<b>8,258</b>
7 <i>of which: SA-CCR</i>	<b>33,596</b>	—	<b>2,818</b>
7a <i>of which: current exposure method ('CEM')</i>	—	22,785	—
8 <i>of which: IMM (CCR) approach</i>	<b>36,882</b>	39,103	<b>3,108</b>
9 <i>of which: Others</i>	<b>27,691</b>	26,299	<b>2,332</b>
10 <b>Credit valuation adjustment ('CVA') Risk</b>	<b>38,613</b>	27,827	<b>3,089</b>
11 <b>Equity positions in banking book under the simple risk weight method and the internal models method</b>	<b>28,841</b>	41,651	<b>2,446</b>
15 <b>Settlement risk</b>	<b>115</b>	91	<b>10</b>
16 <b>Securitisation exposures in banking book</b>	<b>9,262</b>	9,217	<b>741</b>
18 <i>of which: SEC-ERBA including internal assessment approach ('IAA')</i>	<b>5,779</b>	6,610	<b>462</b>
19 <i>of which: SEC-SA</i>	<b>3,483</b>	2,607	<b>279</b>
20 <b>Market risk</b>	<b>111,706</b>	111,813	<b>8,939</b>
21 <i>of which: STM approach</i>	<b>4,018</b>	3,785	<b>324</b>
22 <i>of which: IMM approach</i>	<b>107,688</b>	108,028	<b>8,615</b>
24 <b>Operational risk</b>	<b>347,921</b>	355,365	<b>27,834</b>
25 <b>Amounts below the thresholds for deduction (subject to 250% risk weight ('RW'))</b>	<b>155,416</b>	155,358	<b>13,179</b>
26a <b>Deduction to RWAs</b>	<b>37,705</b>	36,827	<b>3,016</b>
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>	<b>37,705</b>	36,827	<b>3,016</b>
27 <b>Total</b>	<b>2,984,589</b>	2,880,801	<b>249,413</b>

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

2 Minimum capital requirements represent 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\$104.1bn over the second quarter of 2021 mainly due to:

- an increase in asset size of HK\$116.1bn including the increase of HK\$63.8bn in IPO loans and growth in corporate exposures in Hong Kong and Japan;
- an increase of HK\$13.2bn from model updates in residential mortgages portfolios; partly offset by
- a decrease of HK\$14.8bn due to improvement in asset quality in corporate portfolios.

## RWA flow statements

### RWA flow statement for credit risk

Table 10: CR8 – RWA flow statement of credit risk exposures under IRB approach<sup>1</sup>

		a
		HK\$m
1	<b>RWAs as at 31 Mar 2021</b>	<b>1,900,164</b>
2	Asset size	<b>52,868</b>
3	Asset quality	<b>(14,884)</b>
4	Model updates	<b>13,187</b>
5	Methodology and policy	<b>(2,065)</b>
7	Foreign exchange movements	<b>(519)</b>
9	<b>RWAs as at 30 Jun 2021</b>	<b>1,948,751</b>

<sup>1</sup> 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\$48.6bn over the second quarter of 2021 mainly due to:

- an increase in asset size of HK\$52.9bn largely driven by growth in corporate loans in Hong Kong and Japan and increased IPO loans granted to securities firms in Hong Kong;
- an increase of HK\$13.2bn from model updates in residential mortgages portfolios; partly offset by
- a decrease of HK\$14.9bn due to improvement in asset quality in corporate portfolios.

### RWA flow statement for counterparty credit risk

Table 11: CCR7 – RWA flow statement of default risk exposures under IMM(CCR) approach

		a
		HK\$m
1	<b>RWAs as at 31 Mar 2021</b>	<b>39,103</b>
2	Asset size	<b>(1,522)</b>
3	Credit quality of counterparties	<b>(657)</b>
7	Foreign exchange movements	<b>(42)</b>
9	<b>RWAs as at 30 Jun 2021</b>	<b>36,882</b>

### RWA flow statement for market risk

Table 12: 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	<b>RWAs as at 31 Mar 2021</b>	<b>20,875</b>	<b>36,200</b>	<b>34,505</b>	<b>16,448</b>	<b>108,028</b>
2	Movement in risk levels	<b>(1,245)</b>	<b>(7,015)</b>	<b>1,170</b>	<b>6,866</b>	<b>(224)</b>
6	Foreign exchange movements	<b>(22)</b>	<b>(39)</b>	<b>(37)</b>	<b>(18)</b>	<b>(116)</b>
8	<b>RWAs as at 30 Jun 2021</b>	<b>19,608</b>	<b>29,146</b>	<b>35,638</b>	<b>23,296</b>	<b>107,688</b>

## Loss-absorbing Capacity

Table 13: KM2(A) – Key metrics – LAC requirements for material subsidiaries

	Footnotes	a	b	c	d	e
		30 Jun 2021	31 Mar 2021	31 Dec 2020	30 Sep 2020	30 Jun 2020
Of the group at LAC consolidation group level						
1		793,162	753,000	792,498	787,043	773,180
2		3,117,666	3,011,181	2,956,993	3,029,053	2,942,719
3		25.4	25.0	26.8	26.0	26.3
4		9,060,385	8,887,602	8,697,936	8,651,756	8,466,242
5		8.8	8.5	9.1	9.1	9.1
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 exemption 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 LAC increased by HK\$40.2bn in the second quarter of 2021 from increased non-regulatory capital elements of HK\$45.8bn, from the issuance of new LAC instruments, partially offset by a decrease in regulatory capital of HK\$5.6bn.

Table 14: TLAC1(A) – TLAC composition

	a	
	At 30 Jun 2021	
<b>Regulatory capital elements of internal loss-absorbing capacity and adjustments (HK\$m)</b>		
1	Common Equity Tier 1 ('CET1') capital	488,897
2	Additional tier 1 ('AT1') capital before LAC adjustments	46,163
5	AT1 capital eligible under the LAC Rules	46,163
6	Tier 2 ('T2') capital before LAC adjustments	60,314
8	T2 capital instruments ineligible as internal loss-absorbing capacity as not issued directly or indirectly to, and held directly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group	3,106
10	T2 capital eligible under the LAC Rules	57,208
11	Internal loss-absorbing capacity arising from regulatory capital	592,268
<b>Non-regulatory capital elements of internal loss-absorbing capacity (HK\$m)</b>		
12	Internal non-capital LAC debt instruments issued directly or indirectly to, and held indirectly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group	200,910
17	Internal loss-absorbing capacity arising from non-capital LAC debt instruments before adjustments	200,910
<b>Non-regulatory capital elements of internal loss-absorbing capacity: adjustments (HK\$m)</b>		
18	Internal loss-absorbing capacity before deductions	793,178
19	Deductions of exposures between the material subsidiary's LAC consolidation group and group companies outside that group that correspond to non-capital items eligible for internal loss-absorbing capacity	16
22	Internal loss-absorbing capacity after deductions	793,162
<b>Risk-weighted amount and exposure measure under the LAC Rules for internal loss-absorbing capacity purposes (HK\$m)</b>		
23	Risk-weighted amount under the LAC Rules	3,117,666
24	Exposure measure under the LAC Rules	9,060,385
<b>Internal LAC ratios and buffers (%)</b>		
25	Internal LAC risk-weighted ratio	25.4%
26	Internal LAC leverage ratio	8.8%
27	CET1 capital (as a percentage of RWA under the BCR) available after meeting the LAC consolidation group's minimum capital and LAC requirements	9.4%
28	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer requirements plus higher loss absorbency requirement, expressed as a percentage of RWA under the BCR)	5.52%
29	of which: capital conservation buffer requirement	2.50%
30	of which: institution-specific countercyclical capital buffer requirement	0.52%
31	of which: higher loss absorbency requirement	2.50%



Table 15: TLAC2 – The Hongkong and Shanghai Banking Corporation Limited creditor ranking

		Creditor ranking (HK\$m)					Sum of 1 to 5
		1 (most junior)	2	3	4	5 (most senior)	
1	Is the resolution entity or a non-HK resolution entity the creditor/investor? (yes or no)	Yes	Yes	No <sup>1</sup>	Yes	Yes	
2	Description of creditor ranking	Ordinary shares <sup>2</sup>	AT1 instruments	Primary capital notes	Tier 2 instruments	LAC loans	
3	Total capital and liabilities net of credit risk mitigation	<b>172,335</b>	<b>44,264</b>	<b>3,106</b>	<b>13,823</b>	<b>188,795</b>	<b>422,323</b>
5	Total capital and liabilities less excluded liabilities	<b>172,335</b>	<b>44,264</b>	<b>3,106</b>	<b>13,823</b>	<b>188,795</b>	<b>422,323</b>
6	– of row 5 that are eligible as internal loss-absorbing capacity	<b>172,335</b>	<b>44,264</b>	–	<b>13,823</b>	<b>188,795</b>	<b>419,217</b>
7	– of row 6 with 1 year ≤ residual maturity < 2 years	–	–	–	–	<b>18,016</b>	<b>18,016</b>
8	– of row 6 with 2 years ≤ residual maturity < 5 years	–	–	–	–	<b>58,553</b>	<b>58,553</b>
9	– of row 6 with 5 years ≤ residual maturity < 10 years	–	–	–	<b>9,164</b>	<b>73,398</b>	<b>82,562</b>
10	– of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities	–	–	–	<b>4,659</b>	<b>38,828</b>	<b>43,487</b>
11	– of row 6 that are perpetual securities	<b>172,335</b>	<b>44,264</b>	–	–	–	<b>216,599</b>

<sup>1</sup> The company's primary capital notes are held by third parties.

<sup>2</sup> Excludes the value of share premium and reserves attributable to ordinary shareholders.

## Credit risk

### Credit quality of assets

#### Credit quality of exposures

Tables 16 and 17 present information on the credit quality of exposures by exposure category, changes in defaulted loans and debt securities on a regulatory consolidation basis. For further details on the credit quality of IRB and STC exposures, refer to Tables 24 to 26 and 28 respectively.

The loans covered in these tables are generally referred to as any on-balance sheet exposures included as credit risk for non-securitisation exposures, covering exposures to customers, banks, sovereigns and others. Cash items and non-financial assets are excluded.

Table 16: CR1 – Credit quality of exposures

	a	b	c	d		f	g	
				Of which: Expected Credit Loss ('ECL') accounting provisions <sup>1</sup> for credit losses on STC approach exposures				
				Of which: ECL accounting provisions for credit losses on IRB approach exposures	Net values (a+b-c)			
Gross carrying amounts of		Allowances/ impairments	Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions	Net values (a+b-c)			
Defaulted exposures	Non-defaulted exposures							
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	
1	Loans	40,135	4,700,728	29,495	2,257	1,014	26,225	4,711,368
2	Debt securities	–	1,508,741	95	–	11	84	1,508,646
3	Off-balance sheet exposures	2,084	3,201,425	1,039	5	76	958	3,202,470
4	<b>Total at 30 Jun 2021</b>	<b>42,219</b>	<b>9,410,894</b>	<b>30,629</b>	<b>2,262</b>	<b>1,101</b>	<b>27,267</b>	<b>9,422,484</b>

<sup>1</sup> The categorisation of ECL accounting provisions into the regulatory categories of specific and collective provisions follows the treatment specified in the completion instructions of the HKMA Capital Adequacy Ratio – MA(BS)3 return. According to the completion instructions, the ECL accounting provisions classified into Stage 1 and Stage 2 are treated as collective provisions, while those classified under Stage 3 are treated as specific provisions. Provisions made for purchased or originated credit-impaired financial assets, under which any changes in lifetime expected credit losses will be recognised in the profit or loss account as an impairment gain or loss, are treated as specific provisions.

Table 17: CR2 – Changes in defaulted loans and debt securities

		a
		HK\$m
1	Defaulted loans and debt securities at 31 Dec 2020	38,259
2	Loans and debt securities that have defaulted since 31 Dec 2020	12,406
3	Returned to non-defaulted status	(2,606)
4	Amounts written off	(2,173)
5	Other changes	(5,751)
6	<b>Defaulted loans and debt securities at 30 Jun 2021</b>	<b>40,135</b>

<sup>1</sup> Other changes include repayment and foreign exchange movements.

Tables 18 and 19 analyse credit-impaired exposures and impairment allowances on a regulatory consolidation basis. For customer loans and advances, where the industry sector comprises not less than 10% of the group's total gross loans and advances to customers, the analysis of gross impaired loans and advances and allowances by major industry sectors based on categories and definitions used by the HSBC Group is as follows:

Table 18: Credit-impaired exposures and impairment allowances by industry

	Footnotes	Total gross loans and advances to customers	Gross credit-impaired loans and advances	Specific provisions <sup>1</sup>	Collective provisions <sup>1</sup>
		HK\$m	HK\$m	HK\$m	HK\$m
<b>At 30 Jun 2021</b>					
Residential mortgages		1,125,473	5,582	(474)	(170)
Real Estate		638,864	2,375	(90)	(932)
Wholesale and retail trade		417,614	14,419	(10,495)	(1,378)
Manufacturing		385,156	6,337	(3,933)	(930)
Others	<sup>2</sup>	1,336,845	12,042	(4,804)	(5,583)
<b>Total</b>		<b>3,903,952</b>	<b>40,755</b>	<b>(19,796)</b>	<b>(8,993)</b>

<sup>1</sup> The classification of specific and collective provisions follows the treatment specified in the completion instructions of the HKMA Capital Adequacy Ratio – MA(BS)3 return. Details can be found in footnote 1 under table 16 of this document.

<sup>2</sup> Any segment which constitutes less than 10% of total gross loans and advances to customers is disclosed on an aggregated basis under the category 'others'.

The geographical information shown below has been classified by the location of the principal operations of the subsidiary and by the location of the branch responsible for advancing the funds.

**Table 19: Credit-impaired exposures and impairment allowances by geographical location**

	Total gross loans and advances to customers HK\$m	Gross credit-impaired loans and advances HK\$m	Overdue loans and advances HK\$m	Specific provisions <sup>1</sup> HK\$m	Collective provisions <sup>1</sup> HK\$m
<b>At 30 Jun 2021</b>					
Hong Kong	2,540,891	15,736	8,906	(6,664)	(5,378)
Mainland China	399,166	1,663	1,169	(1,123)	(1,049)
Others	963,895	23,356	12,935	(12,009)	(2,566)
<b>Total</b>	<b>3,903,952</b>	<b>40,755</b>	<b>23,010</b>	<b>(19,796)</b>	<b>(8,993)</b>

<sup>1</sup> The classification of specific and collective provisions follows the treatment specified in the completion instructions of the HKMA Capital Adequacy Ratio – MA(BS)3 return. Details can be found in footnote 1 under table 16 of this document.

<sup>2</sup> Any geographical location which constitutes less than 10% of total gross loans and advances to customers is disclosed on an aggregated basis under the category 'others'.

### Loans and advances to customers

Tables 20 to 22 analyse loans and advances to customers by geographical locations, by industries and by which are overdue and rescheduled on an accounting consolidation basis. The accounting consolidation basis is different from the regulatory consolidation basis as explained in the 'Basis of consolidation' section of this document.

The following analysis of loans and advances to customers by geographical areas is in accordance with the location of counterparties, after recognised risk transfer.

**Table 20: Loans and advances to customers by geographical location**

	Hong Kong HK\$m	Rest of Asia-Pacific HK\$m	Other HK\$m	Total HK\$m
<b>At 30 Jun 2021</b>				
Gross loans and advances to customers	2,110,158	1,511,108	308,748	3,930,014

Tables 21 and 22 analyse the group's loans and advances to customers based on the categories used by the HKMA in the 'Quarterly Analysis of Loans and Advances and Provisions – (MA(BS)2A)' return.

**Table 21: Loans and advances to customers by industry**

	Gross Advances at 30 Jun 2021 HK\$m	Collateral and other security at 30 Jun 2021 HK\$m
Industrial, commercial and financial	1,163,037	656,006
– property development	164,526	60,002
– property investment	302,022	269,954
– financial concerns	146,534	104,326
– stockbrokers	44,342	4,055
– wholesale and retail trade	100,616	50,424
– manufacturing	57,989	16,921
– transport and transport equipment	60,347	32,825
– recreational activities	1,701	896
– information technology	37,791	2,969
– others	247,169	113,634
Individuals	894,938	804,181
– advances for the purchase of flats under the Hong Kong Government's Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	60,855	60,846
– advances for the purchase of other residential properties	656,588	656,588
– credit card advances	56,760	–
– others	120,735	86,747
<b>Gross loans and advances to customers for use in Hong Kong</b>	<b>2,057,975</b>	<b>1,460,187</b>
Trade Finance	162,894	36,214
Gross loans and advances to customers for use outside Hong Kong	1,709,145	706,640
<b>Gross loans and advances to customers</b>	<b>3,930,014</b>	<b>2,203,041</b>

The categories of advances, and the relevant definitions, used by the HKMA differ from those used for internal purposes by the HSBC Group as disclosed in Note 3 in the group's *Interim Report 2021*.

Collateral includes any tangible security that has a determinable fair market value and is readily marketable. This includes (but is not limited to) cash and deposits, stocks and bonds, mortgages over properties and charges over other fixed assets, such as plant and equipment. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance has been included.

Rescheduled loans and advances to customers are those loans and advances that have been restructured or renegotiated because of deterioration in the financial position of the borrower, or because of the inability of the borrower to meet the original repayment schedule.

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Rescheduled loans and advances to customers are stated net of any loans and advances that have subsequently become overdue for more than three months and which are included in overdue loans and advances to customers.

Table 22: Overdue and rescheduled loans and advances to customers

	Footnotes	Hong Kong		Rest of Asia-Pacific		Total	
		HK\$m	% <sup>1</sup>	HK\$m	% <sup>1</sup>	HK\$m	% <sup>1</sup>
<b>At 30 Jun 2021</b>							
Gross amounts which have been overdue with respect to either principal or interest for:							
– more than three months but not more than six months		1,804	0.1	1,480	0.1	3,284	0.1
– more than six months but not more than one year		3,545	0.1	3,397	0.3	6,942	0.2
– more than one year		5,049	0.2	9,603	0.7	14,652	0.3
<b>Total</b>		<b>10,398</b>	<b>0.4</b>	<b>14,480</b>	<b>1.1</b>	<b>24,878</b>	<b>0.6</b>
Specific provisions made in respect of amounts overdue	2	(3,969)		(9,956)		(13,925)	
Fair value of collateral held in respect of amounts overdue		3,313		4,216		7,529	
Rescheduled loans and advances to customers		764	–	2,015	0.1	2,779	0.1

1 Percentages shown are of gross loans and advances to customers.

2 The classification of specific provisions follows the treatment specified in the completion instructions of the HKMA Capital Adequacy Ratio – MA(BS)3 return. Details can be found in footnote 1 under Table 16 of this document.

### Off-balance sheet exposures other than derivative transactions

The following table gives the nominal contract amounts and risk-weighted amounts of contingent liabilities and commitments. The information is consistent with that in the 'Capital Adequacy Ratio' return submitted to the HKMA by the group. The return is prepared on a consolidated basis as specified by the HKMA under the requirements of section 3C(1) of the BCR.

For accounting purposes, acceptances and endorsements are recognised on the balance sheet in 'Other assets'. For the purpose of the BCR, acceptances and endorsements are included in the capital adequacy calculation as if they were contingencies.

Table 23: Off-balance sheet exposures other than derivative transactions

	30 Jun 2021 HK\$m
<b>Contract amounts</b>	
Direct credit substitutes	41,700
Transaction-related contingencies	268,436
Trade-related contingencies	124,720
Forward asset purchases	6,667
Commitments that are unconditionally cancellable without prior notice	2,366,587
Commitments which have an original maturity of not more than one year	68,961
Commitments which have an original maturity of more than one year	326,438
<b>Total</b>	<b>3,203,509</b>
Risk-weighted amounts	313,245

## Credit risk under internal ratings-based approach

Table 24.1: CR6 – Credit risk exposures by portfolio and PD range – for IRB approach (Wholesale)

	a	b	c	d	e	f	g	h	i	j	k	l
PD scale	Original on-balance sheet gross exposure HK\$m	Off-balance sheet exposures pre-CCF HK\$m	Average CCF %	EAD post-CRM and post-CCF HK\$m	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWAs HK\$m	RWA density %	EL HK\$m	Provisions HK\$m
<b>Portfolio (i) – Sovereign</b>												
0.00 to < 0.15	1,806,035	3,365	23.3	1,806,819	0.02	640	35.2	1.34	100,728	6	144	
0.15 to < 0.25	19,618	–	–	19,618	0.22	14	45.0	2.23	8,570	44	19	
0.25 to < 0.50	4,007	34	50.0	4,024	0.37	23	45.0	1.02	1,778	44	7	
0.50 to < 0.75	17,398	1,149	73.7	18,244	0.63	20	45.0	1.35	11,525	63	52	
0.75 to < 2.50	–	–	–	–	1.20	3	45.0	1.00	–	79	–	
2.50 to < 10.00	8,546	431	30.0	8,675	4.16	15	40.7	1.79	9,638	111	133	
10.00 to < 100.00	–	–	–	–	–	–	–	–	–	–	–	
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	
<b>Sub-total at 30 Jun 2021</b>	<b>1,855,604</b>	<b>4,979</b>	<b>35.7</b>	<b>1,857,380</b>	<b>0.05</b>	<b>715</b>	<b>35.5</b>	<b>1.35</b>	<b>132,239</b>	<b>7</b>	<b>355</b>	<b>1,498</b>
<b>Portfolio (ii) – Bank</b>												
0.00 to < 0.15	452,954	54,719	41.5	475,689	0.05	14,023	39.8	1.05	58,325	12	88	
0.15 to < 0.25	38,613	13,477	43.6	44,485	0.22	796	45.9	1.01	18,275	41	45	
0.25 to < 0.50	6,257	1,334	36.6	6,745	0.37	970	39.9	0.81	3,237	48	10	
0.50 to < 0.75	7,193	1,609	32.5	7,716	0.63	348	40.0	0.72	4,348	56	19	
0.75 to < 2.50	4,867	1,246	34.7	5,299	1.27	230	43.5	0.86	4,668	88	29	
2.50 to < 10.00	1,521	588	31.1	1,704	3.62	157	65.8	0.45	2,755	162	41	
10.00 to < 100.00	9	1	20.0	9	29.79	10	41.8	0.73	15	171	1	
100.00 (Default)	213	–	–	213	100.00	2	60.9	0.52	491	230	111	
<b>Sub-total at 30 Jun 2021</b>	<b>511,627</b>	<b>72,974</b>	<b>41.4</b>	<b>541,860</b>	<b>0.14</b>	<b>16,536</b>	<b>40.5</b>	<b>1.04</b>	<b>92,114</b>	<b>17</b>	<b>344</b>	<b>1,148</b>
<b>Portfolio (iii) – Corporate – small-and-medium sized corporates</b>												
0.00 to < 0.15	11,278	13,603	27.1	14,820	0.10	600	36.0	1.84	2,245	15	5	
0.15 to < 0.25	10,429	10,831	26.8	13,333	0.22	815	32.7	1.79	3,085	23	10	
0.25 to < 0.50	19,977	13,399	26.0	23,462	0.37	1,144	31.8	2.23	8,076	34	28	
0.50 to < 0.75	44,664	15,750	28.7	49,188	0.63	1,368	27.1	2.06	17,626	36	84	
0.75 to < 2.50	119,556	56,531	26.9	134,768	1.42	4,687	29.0	1.90	68,934	51	551	
2.50 to < 10.00	29,248	13,085	23.7	32,347	3.92	1,317	35.2	1.56	26,710	83	449	
10.00 to < 100.00	873	567	24.0	1,009	17.24	87	41.0	1.37	1,617	160	72	
100.00 (Default)	2,731	64	21.8	2,745	100.00	69	29.2	1.19	5,177	189	537	
<b>Sub-total at 30 Jun 2021</b>	<b>238,756</b>	<b>123,830</b>	<b>26.7</b>	<b>271,672</b>	<b>2.41</b>	<b>10,087</b>	<b>30.2</b>	<b>1.90</b>	<b>133,470</b>	<b>49</b>	<b>1,736</b>	<b>2,927</b>
<b>Portfolio (iv) – Corporate – other</b>												
0.00 to < 0.15	580,354	658,216	29.2	768,267	0.09	17,418	44.7	1.63	159,591	21	299	
0.15 to < 0.25	193,797	237,428	29.8	264,478	0.22	5,026	43.8	1.47	97,283	37	255	
0.25 to < 0.50	186,345	199,340	25.5	237,021	0.37	4,223	40.8	1.44	108,520	46	358	
0.50 to < 0.75	211,323	174,726	24.6	254,222	0.63	4,350	37.3	1.56	138,504	54	597	
0.75 to < 2.50	496,251	344,141	24.4	568,457	1.34	10,951	36.6	1.39	408,226	72	2,785	
2.50 to < 10.00	92,163	90,238	22.4	112,338	4.22	3,466	38.1	1.23	119,314	106	1,799	
10.00 to < 100.00	6,176	5,604	28.7	7,785	18.52	333	43.0	1.27	14,482	186	501	
100.00 (Default)	26,666	1,661	14.7	26,909	100.00	535	46.1	0.98	28,590	106	16,181	
<b>Sub-total at 30 Jun 2021</b>	<b>1,793,075</b>	<b>1,711,354</b>	<b>27.1</b>	<b>2,239,477</b>	<b>1.98</b>	<b>46,302</b>	<b>41.0</b>	<b>1.49</b>	<b>1,074,510</b>	<b>48</b>	<b>22,775</b>	<b>33,803</b>

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Table 24.2: CR6 – Credit risk exposures by portfolio and PD range – for IRB approach (Retail)

	a	b	c	d	e	f	g	h	i	j	k	l
PD scale	Original on-balance sheet gross exposure HK\$m	Off-balance sheet exposures pre-CCF HK\$m	Average CCF %	EAD post-CRM and post-CCF HK\$m	Average PD %	Number of obligors	Average LGD %	Average maturity <sup>1</sup> years	RWAs HK\$m	RWA density %	EL HK\$m	Provisions HK\$m
<b>Portfolio (v) – Retail – qualifying revolving retail exposures</b>												
0.00 to < 0.15	27,327	456,317	33.9	182,152	0.06	4,302,189	101.1	–	6,901	4	107	
0.15 to < 0.25	2,903	17,370	47.4	11,143	0.22	241,248	101.0	–	1,317	12	25	
0.25 to < 0.50	7,574	31,739	38.1	19,665	0.40	360,958	97.5	–	3,663	19	76	
0.50 to < 0.75	5,900	7,501	52.8	9,858	0.58	94,486	98.1	–	2,523	26	56	
0.75 to < 2.50	14,380	32,909	38.8	27,148	1.34	310,004	97.3	–	12,758	47	354	
2.50 to < 10.00	8,800	5,490	60.4	12,114	4.55	118,230	91.3	–	12,626	104	508	
10.00 to < 100.00	3,620	1,341	65.1	4,492	22.60	44,347	87.8	–	8,555	190	910	
100.00 (Default)	202	57	1.3	203	100.00	2,371	98.9	–	353	174	173	
<b>Sub-total at 30 Jun 2021</b>	<b>70,706</b>	<b>552,724</b>	<b>35.5</b>	<b>266,775</b>	<b>0.90</b>	<b>5,473,833</b>	<b>99.6</b>	<b>–</b>	<b>48,696</b>	<b>18</b>	<b>2,209</b>	<b>2,946</b>
<b>Portfolio (vi) – Retail – Residential mortgage exposures</b>												
0.00 to < 0.15	436,347	29,607	55.4	452,737	0.09	156,624	14.6	–	79,909	18	58	
0.15 to < 0.25	191,451	14,042	89.2	203,979	0.19	110,741	12.0	–	31,165	15	46	
0.25 to < 0.50	168,028	3,368	76.0	170,589	0.37	59,539	12.4	–	30,816	18	80	
0.50 to < 0.75	80,165	696	127.2	81,051	0.59	38,674	12.2	–	16,157	20	57	
0.75 to < 2.50	102,114	774	94.9	102,848	1.16	51,937	11.1	–	22,580	22	131	
2.50 to < 10.00	36,152	162	113.5	36,336	4.43	16,993	11.5	–	12,933	36	189	
10.00 to < 100.00	13,277	203	97.4	13,474	20.26	7,139	12.1	–	13,601	101	328	
100.00 (Default)	5,686	73	–	5,686	100.00	4,654	13.2	–	7,549	133	275	
<b>Sub-total at 30 Jun 2021</b>	<b>1,033,220</b>	<b>48,925</b>	<b>68.4</b>	<b>1,066,700</b>	<b>1.23</b>	<b>446,301</b>	<b>13.1</b>	<b>–</b>	<b>214,710</b>	<b>20</b>	<b>1,164</b>	<b>1,819</b>
<b>Portfolio (vii) – Retail – small business retail exposures</b>												
0.00 to < 0.15	2,786	8	100.0	2,793	0.08	1,089	10.2	–	63	2	–	
0.15 to < 0.25	385	2	100.0	387	0.19	111	17.6	–	26	7	–	
0.25 to < 0.50	325	–	–	325	0.35	57	33.9	–	64	20	–	
0.50 to < 0.75	578	2	100.0	580	0.55	206	5.8	–	25	4	–	
0.75 to < 2.50	373	2	100.0	375	1.24	75	23.8	–	98	26	1	
2.50 to < 10.00	450	1	100.0	451	5.01	170	9.2	–	62	14	4	
10.00 to < 100.00	–	–	–	–	–	–	–	–	–	–	–	
100.00 (Default)	4	–	–	4	100.00	2	12.0	–	5	138	–	
<b>Sub-total at 30 Jun 2021</b>	<b>4,901</b>	<b>15</b>	<b>100.0</b>	<b>4,915</b>	<b>0.77</b>	<b>1,710</b>	<b>12.8</b>	<b>–</b>	<b>343</b>	<b>7</b>	<b>5</b>	<b>4</b>
<b>Portfolio (viii) – Other retail exposures to individuals</b>												
0.00 to < 0.15	6,245	27,788	30.7	14,786	0.09	76,017	9.4	–	286	2	1	
0.15 to < 0.25	2,333	17,838	31.6	7,978	0.21	58,391	5.2	–	171	2	1	
0.25 to < 0.50	10,841	12,236	38.6	15,563	0.36	87,759	47.8	–	4,174	27	24	
0.50 to < 0.75	4,884	4,735	49.5	7,227	0.67	21,458	20.3	–	1,184	16	9	
0.75 to < 2.50	7,581	1,614	35.0	8,145	1.49	38,283	65.9	–	6,315	78	85	
2.50 to < 10.00	4,862	2,597	44.2	6,009	3.45	24,787	34.6	–	3,036	51	95	
10.00 to < 100.00	618	44	43.3	637	17.68	4,954	83.3	–	1,096	172	98	
100.00 (Default)	87	21	15.7	90	100.00	1,144	78.1	–	186	206	57	
<b>Sub-total at 30 Jun 2021</b>	<b>37,451</b>	<b>66,873</b>	<b>34.4</b>	<b>60,435</b>	<b>1.10</b>	<b>312,793</b>	<b>31.1</b>	<b>–</b>	<b>16,448</b>	<b>27</b>	<b>370</b>	<b>324</b>

Table 24.3: CR6 – Credit risk exposures by portfolio and PD range – for IRB approach (Total)

	a	b	c	d	e	f	g	h	i	j	k	l
	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	Average CCF	EAD post-CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average <sup>1</sup> maturity	RWAs	RWA density	EL	Provisions <sup>2</sup>
	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
<b>Total (sum of all portfolios) at 30 Jun 2021</b>	<b>5,545,340</b>	<b>2,581,674</b>	<b>30.2</b>	<b>6,309,214</b>	<b>1.09</b>	<b>6,308,277</b>	<b>36.5</b>	<b>1.41</b>	<b>1,712,530</b>	<b>27</b>	<b>28,958</b>	<b>44,469</b>

<sup>1</sup> The average maturity is relevant to wholesale portfolios only.

<sup>2</sup> Provisions in this table represent the eligible provisions as defined under Division 1, Part 6 of the BCR which include the regulatory reserves for general banking risks and the impairment allowances reported under IRB approach.

The increase in RWAs of HK\$58.9bn in the first half of 2021 was mainly driven by an increase in corporate and bank exposures.

Table 25: CR10 – Specialised Lending under supervisory slotting criteria approach – HVCRE

	a	b	c	d	e	f	
Supervisory Rating Grade	Remaining maturity	On-balance sheet exposure amount	Off-balance sheet exposure amount	Supervisory risk weight ('SRW')	EAD amount	RWAs	Expected loss amount
		HK\$m	HK\$m	%	HK\$m	HK\$m	HK\$m
Strong <sup>^</sup>	Less than 2.5 Years	148	36	70	163	114	1
Strong	Equal to or more than 2.5 Years	47	–	95	47	44	–
Good	Equal to or more than 2.5 Years	6	–	120	6	8	–
<b>Total at 30 Jun 2021</b>		<b>201</b>	<b>36</b>		<b>216</b>	<b>166</b>	<b>1</b>

<sup>^</sup> Use of preferential risk-weights

Table 26: CR10 – Specialised Lending under supervisory slotting criteria approach – Other than HVCRE

	a	b	c	d(i)	d(iv)	d(v)	e	f	
Supervisory Rating Grade	Remaining Maturity	On-balance sheet exposure amount	Off-balance sheet exposure amount	SRW	EAD amount			RWAs	Expected loss amount
					Project Finance ('PF')	Income Producing Real Estate ('IPRE')	Total		
					HK\$m	HK\$m	HK\$m		
Strong <sup>^</sup>	Less than 2.5 years	30,672	3,201	50	793	31,017	31,810	15,905	–
Strong	Less than 2.5 years	6,729	2,040	70	2,333	5,102	7,435	5,205	30
Strong <sup>^</sup>	Equal to or more than 2.5 years	3,936	1,929	50	4,685	–	4,685	2,343	–
Strong	Equal to or more than 2.5 years	35,315	2,060	70	11,450	24,621	36,071	25,250	144
Good <sup>^</sup>	Less than 2.5 years	9,423	1,986	70	933	9,317	10,250	7,175	41
Good	Less than 2.5 years	5,621	1,850	90	–	6,303	6,303	5,672	50
Good <sup>^</sup>	Equal to or more than 2.5 years	2,979	335	70	3,045	–	3,045	2,132	12
Good	Equal to or more than 2.5 years	7,011	1,522	90	–	7,557	7,557	6,801	60
Satisfactory		5,506	2,302	115	2,528	3,639	6,167	7,092	173
Weak		78	2	250	–	80	80	199	6
Default		1,058	16	–	1,026	44	1,070	–	533
<b>Total at 30 Jun 2021</b>		<b>108,328</b>	<b>17,243</b>		<b>26,793</b>	<b>87,680</b>	<b>114,473</b>	<b>77,774</b>	<b>1,049</b>

<sup>^</sup> Use of preferential risk weights.

Table 27: CR10 – Equity exposures under the simple risk weight method

	a	c	d	e
	On-balance sheet exposure amount	SRW	EAD amount	RWAs
	HK\$m	%	HK\$m	HK\$m
<b>Categories</b>				
All other equity exposures	7,210	400	7,210	28,841
<b>Total at 30 Jun 2021</b>	<b>7,210</b>		<b>7,210</b>	<b>28,841</b>

Credit risk under standardised approach

Table 28: CR5 – Credit risk exposures by asset classes and by risk weights – for STC approach

	a	c	d	e	f	g	h	j
Risk Weight	0%	20%	35%	50%	75%	100%	150%	Total credit risk exposures amount (post CCF and post CRM)
Exposure class	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
1 Sovereign exposures	24,518	225	–	523	–	–	–	25,266
2 Public sector entities ('PSE') exposures	106,759	26,363	–	2,966	–	6,758	1	142,847
2a of which: domestic PSEs	–	9,133	–	–	–	–	–	9,133
2b of which: foreign PSEs	106,759	17,230	–	2,966	–	6,758	1	133,714
4 Bank exposures	–	322	–	526	–	60	15	923
5 Securities firm exposures	–	–	–	2,580	–	–	–	2,580
6 Corporate exposures	–	13,116	–	2,320	–	113,572	51	129,059
10 Regulatory retail exposures	–	–	–	–	80,312	–	–	80,312
11 Residential mortgage loans	–	–	107,609	–	9,180	6,259	–	123,048
12 Other exposures which are not past due exposures	–	–	–	–	–	36,423	–	36,423
13 Past due exposures	82	1	–	–	–	259	1,883	2,225
15 <b>Total at 30 Jun 2021</b>	<b>131,359</b>	<b>40,027</b>	<b>107,609</b>	<b>8,915</b>	<b>89,492</b>	<b>163,331</b>	<b>1,950</b>	<b>542,683</b>

The increase in credit risk exposures under the standardised approach of HK\$45.4bn over the first half of 2021 was mainly due to IPO loans.



## Credit risk mitigation

Table 29: CR3 – Overview of recognised credit risk mitigation

	a	b1	b	d
	Exposures unsecured: carrying amount HK\$m	Exposures to be secured HK\$m	Exposures secured by recognised collateral HK\$m	Exposures secured by recognised guarantees HK\$m
1 Loans	2,190,939	2,520,429	2,121,837	398,593
2 Debt securities	1,488,524	20,122	—	20,122
3 <b>Total at 30 Jun 2021</b>	<b>3,679,463</b>	<b>2,540,551</b>	<b>2,121,837</b>	<b>418,715</b>
4 <i>of which: defaulted</i>	<i>8,343</i>	<i>14,293</i>	<i>13,622</i>	<i>671</i>

Table 30: CR7 – Effects on RWAs of recognised credit derivative contracts used as recognised credit risk mitigation – for IRB approach

	a	b
	Pre-credit derivatives RWAs HK\$m	Actual RWAs HK\$m
1 Corporate – Specialised lending under supervisory slotting criteria approach (project finance)	18,081	18,081
4 Corporate – Specialised lending under supervisory slotting criteria approach (income-producing real estate)	59,693	59,693
5 Corporate – Specialised lending (high-volatility commercial real estate)	166	166
6 Corporate – Small-and-medium sized corporates	133,470	133,470
7 Corporate – Other corporates	1,074,510	1,074,510
8 Sovereigns	128,123	128,123
10 Multilateral development banks	4,116	4,116
11 Bank exposures – Banks	61,745	61,745
12 Bank exposures – Securities firms	30,369	30,369
14 Retail – Small business retail exposures	343	343
15 Retail – Residential mortgages to individuals	210,792	210,792
16 Retail – Residential mortgages to property-holding shell companies	3,918	3,918
17 Retail – Qualifying revolving retail exposures ('QRRE')	48,696	48,696
18 Retail – Other retail exposures to individuals	16,448	16,448
19 Equity – Equity exposures under market-based approach (simple risk weight method)	28,841	28,841
26 Other – Cash items	2,802	2,802
27 Other – Other items	155,594	155,594
28 <b>Total (under the IRB calculation approaches) at 30 Jun 2021</b>	<b>1,977,707</b>	<b>1,977,707</b>

Table 31: CR4 – Credit risk exposures and effects of recognised credit risk mitigation – for STC approach

	a	b	c	d	e	f
	Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWAs and RWA density	
	On-balance sheet amount HK\$m	Off-balance sheet amount HK\$m	On-balance sheet amount HK\$m	Off-balance sheet amount HK\$m	RWAs HK\$m	RWA density %
<b>Exposure classes</b>						
1 Sovereign exposures	—	—	24,632	634	307	1
2 PSE exposures	167,133	11,818	139,465	3,382	13,515	9
2a <i>of which: domestic PSEs</i>	<i>7,759</i>	<i>3,106</i>	<i>7,759</i>	<i>1,374</i>	<i>1,827</i>	<i>20</i>
2b <i>of which: foreign PSEs</i>	<i>159,374</i>	<i>8,712</i>	<i>131,706</i>	<i>2,008</i>	<i>11,688</i>	<i>9</i>
4 Bank exposures	778	995	860	63	410	44
5 Securities firm exposures	2,580	145	2,580	—	1,290	50
6 Corporate exposures	156,324	172,368	123,124	5,935	117,431	91
10 Regulatory retail exposures	82,632	385,390	79,965	347	60,234	75
11 Residential mortgage loans	121,320	13,210	121,248	1,800	50,806	41
12 Other exposures which are not past due exposures	47,919	13,773	36,134	289	36,423	100
13 Past due exposures	2,164	193	2,164	61	3,084	139
15 <b>Total at 30 Jun 2021</b>	<b>580,850</b>	<b>597,892</b>	<b>530,172</b>	<b>12,511</b>	<b>283,500</b>	<b>52</b>

RWAs under the standardised approach increased by HK\$72.7bn over the first half of 2021, primarily due to IPO loans and an increase in corporate exposures in Hong Kong.

## Counterparty credit risk exposures

### Counterparty default risk exposures

CCR arises from derivatives and SFTs. It is calculated in both the trading and non-trading books, and is the risk that a counterparty may default before settlement of the transaction. An economic loss occurs if the transaction or portfolio of transactions with the counterparty has a positive economic value at the time of default. CCR is generated primarily in our wholesale global businesses.

Table 32: CCR1 – Analysis of counterparty default risk exposures (other than those to CCPs) by approaches

	a	b	c	d	e	f
	Replacement cost ('RC') HK\$m	PFE HK\$m	Effective expected positive exposures ('EPE') HK\$m	Alpha ( $\alpha$ ) used for computing default risk exposure HK\$m	Default risk exposure after CRM HK\$m	RWAs HK\$m
1 SA-CCR approach (for derivative contracts)	20,630	74,770		1.4	133,560	33,596
2 IMM (CCR) approach			72,551	1.4	101,571	36,882
4 Comprehensive approach (for SFTs)					172,804	26,000
6 <b>Total at 30 Jun 2021</b>						<b>96,478</b>

The SA-CCR approach was adopted at 30 June 2021 as required by the HKMA and resulted in an increase in counterparty default risk exposures and RWAs.

Table 33: CCR2 – CVA capital charge

	a	b
	EAD post CRM HK\$m	RWAs HK\$m
Netting sets for which CVA capital charge is calculated by the advanced CVA method	101,571	18,712
1 (i) VaR (after application of multiplication factor if applicable)		4,985
2 (ii) Stressed VaR (after application of multiplication factor if applicable)		13,727
3 Netting sets for which CVA capital charge is calculated by the standardised CVA method	123,917	19,901
4 <b>Total at 30 Jun 2021</b>	<b>225,488</b>	<b>38,613</b>

Table 34: CCR6 – Credit-related derivatives contracts

	a	b
	Protection bought HK\$m	Protection sold HK\$m
<b>At 30 Jun 2021</b>		
<b>Notional amounts</b>		
Single-name credit default swaps	153,366	139,644
Index credit default swaps	79,430	71,670
Total return swaps	12,766	–
<b>Total notional amounts</b>	<b>245,562</b>	<b>211,314</b>
<b>Fair values</b>		
Positive fair value (asset)	199	3,429
Negative fair value (liability)	(3,739)	(167)

The decrease in the notional amount of credit default swaps of HK\$98.4bn in the first half of 2021 was due to lower client demand for both bought and sold protection.

Table 35: CCR5 – Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs)

	a	b	c	d	e	f
	Derivative contracts				SFTs	
	Fair value of recognised collateral received		Fair value of posted collateral		Fair value of recognised collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Cash – domestic currency	–	3,454	–	2,889	2,200	22,080
Cash – other currencies	–	78,380	–	52,380	319,055	734,493
Domestic sovereign debt	–	–	–	–	5,599	9,425
Other sovereign debt	–	10,888	8,888	20,832	450,030	310,633
Government agency debt	–	226	–	1,166	–	–
Corporate bonds	6,298	7,276	5,962	61	236,691	53,705
Equity securities	–	2,641	–	–	70,058	106,910
Other collateral	–	8,241	–	–	311	–
<b>Total at 30 Jun 2021</b>	<b>6,298</b>	<b>111,106</b>	<b>14,850</b>	<b>77,328</b>	<b>1,083,944</b>	<b>1,237,246</b>

The received and posted collateral for SFTs increased by HK\$279.4bn and HK\$356.0bn respectively in the first half of 2021, due to higher demand and an increase in market activity for reverse repos and repos from sovereign and bank counterparties.

Table 36: CCR8 – Exposures to CCPs

	a	b
	Exposure after CRM HK\$m	RWAs HK\$m
<b>At 30 Jun 2021</b>		
<b>1 Exposures of the AI as clearing member or clearing client to qualifying CCPs (total)</b>		<b>1,119</b>
2 Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), of which:	<b>12,791</b>	<b>255</b>
3 (i) OTC derivative transactions	<b>2,170</b>	<b>43</b>
4 (ii) exchange-traded derivative contracts	<b>10,621</b>	<b>212</b>
7 Segregated initial margin	<b>12,443</b>	
8 Unsegregated initial margin	<b>6,159</b>	<b>318</b>
9 Funded default fund contributions	<b>1,471</b>	<b>546</b>
<b>11 Exposures of the AI as clearing member or clearing client to non-qualifying CCPs (total)</b>		<b>571</b>
18 Unsegregated initial margin	<b>9</b>	<b>9</b>
19 Funded default fund contributions	<b>45</b>	<b>562</b>

## Counterparty default risk under internal ratings-based approach

Table 37: CCR4 – Counterparty default risk exposures (other than those to CCPs) by portfolio and PD range – for IRB approach

	a	b	c	d	e	f	g
PD scale	EAD post-CRM HK\$m	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWAs HK\$m	RWA density %
<b>Portfolio (i) – Sovereign</b>							
0.00 to < 0.15	91,357	0.07	50	44.5	0.29	8,390	9
0.15 to < 0.25	2,730	0.22	2	45.0	0.01	821	30
0.25 to < 0.50	142	0.37	2	45.0	1.00	72	51
0.50 to < 0.75	87	0.63	1	48.0	1.68	62	72
0.75 to < 2.50	–	–	–	–	–	–	–
2.50 to < 10.00	–	3.05	1	45.0	1.00	–	110
10.00 to < 100.00	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–
<b>Sub-total at 30 Jun 2021</b>	<b>94,316</b>	<b>0.08</b>	<b>56</b>	<b>44.5</b>	<b>0.29</b>	<b>9,345</b>	<b>10</b>
<b>Portfolio (ii) – Bank</b>							
0.00 to < 0.15	182,627	0.05	1,547	35.5	1.01	21,909	12
0.15 to < 0.25	18,689	0.22	167	48.5	0.64	7,691	41
0.25 to < 0.50	7,336	0.37	177	48.8	0.59	3,986	54
0.50 to < 0.75	2,626	0.63	43	45.2	1.07	2,010	77
0.75 to < 2.50	382	0.90	29	47.1	0.83	333	87
2.50 to < 10.00	16	3.68	6	49.7	1.08	24	154
10.00 to < 100.00	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–
<b>Sub-total at 30 Jun 2021</b>	<b>211,676</b>	<b>0.09</b>	<b>1,969</b>	<b>37.3</b>	<b>0.96</b>	<b>35,953</b>	<b>17</b>
<b>Portfolio (iii) – Corporate</b>							
0.00 to < 0.15	48,685	0.09	1,820	47.4	1.79	13,311	27
0.15 to < 0.25	13,377	0.22	551	50.0	1.06	5,561	42
0.25 to < 0.50	5,084	0.37	431	50.3	1.63	2,768	54
0.50 to < 0.75	6,430	0.63	448	50.5	1.33	4,897	76
0.75 to < 2.50	9,316	1.38	1,069	51.6	1.27	9,344	100
2.50 to < 10.00	2,068	3.70	293	51.0	1.51	3,030	146
10.00 to < 100.00	6	17.54	15	60.1	1.00	14	241
100.00 (Default)	61	100.00	2	53.0	1.00	–	–
<b>Sub-total at 30 Jun 2021</b>	<b>85,027</b>	<b>0.47</b>	<b>4,629</b>	<b>48.8</b>	<b>1.57</b>	<b>38,925</b>	<b>46</b>
<b>Total (sum of all portfolios) at 30 Jun 2021</b>	<b>391,019</b>	<b>0.17</b>	<b>6,654</b>	<b>41.5</b>	<b>0.93</b>	<b>84,223</b>	<b>22</b>

The increase in counterparty default risk exposures and RWAs in the first half of 2021 was driven by the implementation of the SA-CCR approach for derivative contracts. The decrease in average RW% between 31 December 2020 and 30 June 2021 is due to decreases in average PD and average maturity in the counterparty credit risk exposures under corporate and sovereign portfolios.

At 30 June 2021, the percentage of total RWAs covered by IRB models is 96% for sovereign exposures, 98% for bank exposures and 78% for corporate exposures. Details on the scope of models for each of the regulatory portfolios can be found in the 'Credit risk under internal ratings-based approach' section from pages 26 to 28 of the Banking Disclosure Statement at 31 December 2020.

## Counterparty default risk under standardised approach

Table 38: CCR3 – Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach

	a	c	d	e	f	i
Risk Weight	0% HK\$m	20% HK\$m	50% HK\$m	75% HK\$m	100% HK\$m	Total default risk exposure after CRM HK\$m
<b>Exposure class</b>						
1 Sovereign exposures	–	1,773	–	–	–	1,773
2 PSE exposures	1,410	791	823	–	–	3,024
2a of which: domestic PSEs	–	455	–	–	–	455
2b of which: foreign PSEs	1,410	336	823	–	–	2,569
4 Bank exposures	–	302	903	–	13	1,218
5 Securities firm exposures	–	–	2	–	–	2
6 Corporate exposures	–	68	–	–	10,665	10,733
8 Regulatory retail exposures	–	–	–	165	–	165
<b>12 Total at 30 Jun 2021</b>	<b>1,410</b>	<b>2,934</b>	<b>1,728</b>	<b>165</b>	<b>10,678</b>	<b>16,915</b>

## Securitisation

### Analysis of securitisation exposures

Table 39: SEC1 – Securitisation exposures in banking book

	a	b	c	g	h	i
	Acting as originator (excluding sponsor)			Acting as investor		
	Traditional HK\$m	Synthetic HK\$m	Sub-total HK\$m	Traditional HK\$m	Synthetic HK\$m	Sub-total HK\$m
<b>At 30 Jun 2021</b>						
1 <b>Retail (total) – of which:</b>	<b>67,630</b>	–	<b>67,630</b>	<b>35,688</b>	–	<b>35,688</b>
2 <i>residential mortgage</i>	<b>67,630</b>	–	<b>67,630</b>	<b>15,754</b>	–	<b>15,754</b>
3 <i>credit card</i>	–	–	–	<b>7,378</b>	–	<b>7,378</b>
4 <i>other retail exposures</i>	–	–	–	<b>12,556</b>	–	<b>12,556</b>

Table 40: SEC2 – Securitisation exposures in trading book

	g	i
	Acting as investor	
	Traditional HK\$m	Sub-total HK\$m
<b>At 30 Jun 2021</b>		
1 <b>Retail (total) – of which:</b>	<b>6,667</b>	<b>6,667</b>
2 <i>residential mortgage</i>	<b>3,852</b>	<b>3,852</b>
4 <i>other retail exposures</i>	<b>2,815</b>	<b>2,815</b>

Table 41: SEC4 – Securitisation exposures in banking book and associated capital requirements – where AI acts as investor

	a	b	c	d	g	h	k	l	o	p
	Exposure values (by RW bands)				Exposure values (by regulatory approach)		RWAs (by regulatory approach)		Capital charges after cap	
	≤20% RW HK\$m	>20% to 50% RW HK\$m	>50% to 100% RW HK\$m	>100% to <1250% RW HK\$m	SEC-ERBA (including IAA) HK\$m	SEC-SA HK\$m	SEC-ERBA (including IAA) HK\$m	SEC-SA HK\$m	SEC-ERBA (including IAA) HK\$m	SEC-SA HK\$m
<b>At 30 Jun 2021</b>										
1 <b>Total exposures</b>	<b>30,156</b>	<b>1,574</b>	<b>2,596</b>	<b>1,362</b>	<b>23,733</b>	<b>11,955</b>	<b>5,779</b>	<b>3,483</b>	<b>462</b>	<b>279</b>
2 <b>Traditional securitisation</b>	<b>30,156</b>	<b>1,574</b>	<b>2,596</b>	<b>1,362</b>	<b>23,733</b>	<b>11,955</b>	<b>5,779</b>	<b>3,483</b>	<b>462</b>	<b>279</b>
3 <i>of which: securitisation</i>	<b>30,156</b>	<b>1,574</b>	<b>2,596</b>	<b>1,362</b>	<b>23,733</b>	<b>11,955</b>	<b>5,779</b>	<b>3,483</b>	<b>462</b>	<b>279</b>
4 <i>of which: retail</i>	<b>30,156</b>	<b>1,574</b>	<b>2,596</b>	<b>1,362</b>	<b>23,733</b>	<b>11,955</b>	<b>5,779</b>	<b>3,483</b>	<b>462</b>	<b>279</b>

## Market risk

### Market risk under standardised approach

Table 42: MR1 – Market risk under STM approach

		a
		RWAs HK\$m
<b>Outright product exposures</b>		
2	Equity exposures (general and specific risk)	3,409
4	Commodity exposures	13
8	<b>Securitisation exposures</b>	596
9	<b>Total at 30 Jun 2021</b>	<b>4,018</b>

### Analysis of VaR, stressed VaR and incremental risk charge measures

The following table is prepared in accordance with the basis of preparation used to calculate the group's market risk capital charge under the IMM approach.

Table 43: MR3 – IMM approach values for market risk exposures

		Footnotes	a
			HK\$m
<b>At 30 Jun 2021</b>			
<b>VaR (10 day – one-tailed 99% confidence interval)</b>		1	
1	Maximum Value		703
2	Average Value		522
3	Minimum Value		335
4	Period End		479
<b>Stressed VaR (10 day – one-tailed 99% confidence interval)</b>		1	
5	Maximum Value		1,137
6	Average Value		865
7	Minimum Value		620
8	Period End		731
<b>IRC (99.9% confidence interval)</b>			
9	Maximum Value		3,165
10	Average Value		2,805
11	Minimum Value		2,304
12	Period End		2,304

1 The total VaR excludes Risks not in VaR ('RNIV').

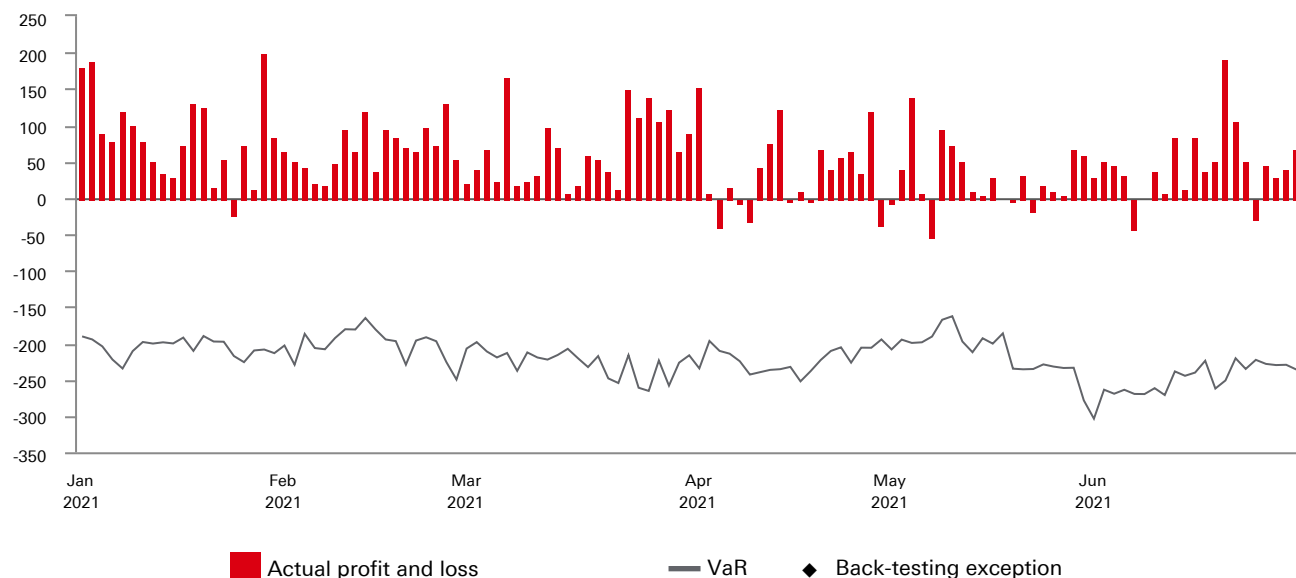
Trading VaR at 30 June 2021 was slightly lower than 31 December 2020 due to a reduction in interest rate trading VaR.

The increase in trading Stressed VaR at 30 June 2021 compared to 31 December 2020 was mainly driven by the Stressed VaR period change.

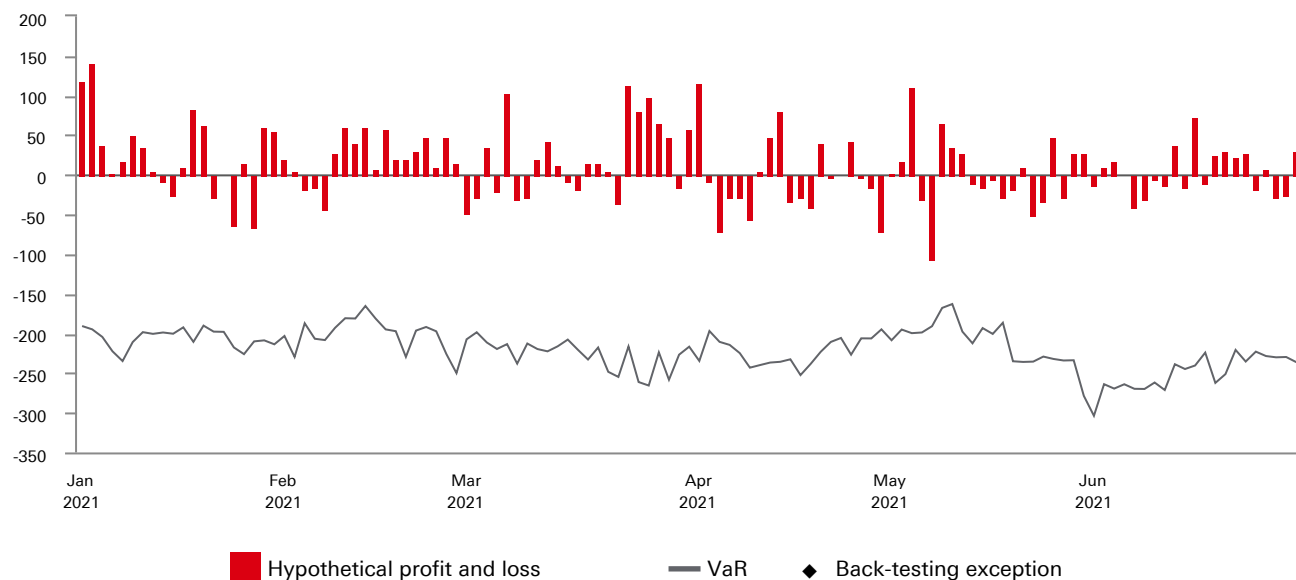
Trading IRC at 30 June 2021 was lower than 31 December 2020 due to a reduction in the credit trading position.

Table 44: MR4 – Comparison of VaR estimates with gains or losses

*VaR back-testing exceptions against actual profit and loss (HK\$m)*



*VaR back-testing exceptions against hypothetical profit and loss (HK\$m)*



There were no VaR back-testing loss exceptions in the first half of 2021.

## Liquidity information

The liquidity coverage ratio ('LCR') aims to ensure that a bank has sufficient unencumbered high quality liquid assets ('HQLA') to meet its liquidity needs in a 30 calendar day liquidity stress scenario. The group also uses the net stable funding ratio ('NSFR') as a basis for ensuring operating entities raise sufficient stable funding to support their business activities. The NSFR requires institutions to maintain minimum amount of stable funding based on assumptions of asset liquidity.

Table 45: LIQ1 – Liquidity coverage ratio – for category 1 institution

		a	b
		Quarter ended 30 Jun 2021	
		Unweighted value (average)	Weighted value (average)
		HK\$m	HK\$m
Number of data points used in calculating the average value of the LCR and related components set out in this table for the quarters ended on 30 June 2021 was 71.			
Basis of disclosure: consolidated			
<b>A</b>	<b>HQLA</b>		
1	Total HQLA		1,950,607
<b>B</b>	<b>Cash outflows</b>		
2	Retail deposits and small business funding, of which:	3,471,850	327,566
3	<i>Stable retail deposits and stable small business funding</i>	280,647	8,446
4	<i>Less stable retail deposits and less stable small business funding</i>	3,191,203	319,120
5	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the AI, of which:	2,791,525	1,275,583
6	<i>Operational deposits</i>	847,394	207,776
7	<i>Unsecured wholesale funding (other than small business funding) not covered in row 6</i>	1,937,157	1,060,833
8	<i>Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period</i>	6,974	6,974
9	Secured funding transactions (including securities swap transactions)		24,755
10	Additional requirements, of which:	701,928	233,128
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	163,702	163,690
12	<i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	1,844	1,844
13	<i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	536,382	67,594
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	200,409	200,409
15	Other contingent funding obligations (whether contractual or non-contractual)	2,694,688	19,881
16	<b>Total cash outflows</b>		2,081,322
<b>C</b>	<b>Cash inflows</b>		
17	Secured lending transactions (including securities swap transactions)	500,450	87,001
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	996,669	533,192
19	Other cash inflows	225,624	224,893
20	<b>Total cash inflows</b>	1,722,743	845,086
<b>D</b>	<b>Liquidity coverage ratio (adjusted value)</b>		
21	Total HQLA		1,950,607
22	Total net cash outflows		1,236,236
23	LCR (%)		157.9%



Table 46: LIQ2 – Net stable funding ratio – for category 1 institution

		a	b	c	d	e
		Quarter ended 30 Jun 2021				
		Unweighted value by residual maturity				
		No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	Weighted amount
		HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Basis of disclosure: consolidated						
		<i>Footnotes</i>				
<b>A</b>	<b>Available stable funding ('ASF') item</b>					
1	Capital:	795,501	–	–	24,624	820,125
2	Regulatory capital	792,395	–	–	16,488	808,883
3	Other capital instruments	3,106	–	–	8,136	11,242
4	Retail deposits and small business funding:		3,453,102	–	–	3,122,115
5	Stable deposits		286,465	–	–	272,142
6	Less stable deposits		3,166,637	–	–	2,849,973
7	Wholesale funding:	–	3,215,933	23,531	21,990	1,163,580
8	Operational deposits		829,998	–	–	414,999
9	Other wholesale funding	–	2,385,935	23,531	21,990	748,581
10	Liabilities with matching interdependent assets	325,224	–	–	–	–
11	Other liabilities:	220,835	360,234	29,059	245,347	259,877
13	All other funding and liabilities not included in the above categories	220,835	360,234	29,059	245,347	259,877
14	<b>Total ASF</b>					<b>5,365,697</b>
<b>B</b>	<b>Required stable funding ('RSF') item</b>					
15	Total HQLA for NSFR purposes		2,015,437			83,851
17	Performing loans and securities:	376,043	2,302,339	400,841	2,441,661	3,053,824
18	Performing loans to financial institutions secured by Level 1 HQLA	–	611,277	5,488	9,340	73,211
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	16,817	362,468	75,036	154,971	263,676
20	Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:	156,676	1,156,298	274,975	1,220,873	1,798,408
21	With a risk-weight of less than or equal to 35% under the STC approach	549	5,652	499	12,138	10,986
22	Performing residential mortgages, of which:	–	20,754	20,377	970,703	671,765
23	With a risk-weight of less than or equal to 35% under the STC approach	–	19,770	19,348	871,173	586,168
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	202,550	151,542	24,965	85,774	246,764
25	Assets with matching interdependent liabilities	325,224	–	–	–	–
26	Other assets:	650,584	251,677	6	2,119	407,447
27	Physical traded commodities, including gold	16,606				14,115
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	28,457				24,188
29	Net derivative assets	20,946				20,946
30	Total derivative liabilities before adjustments for deduction of variation margin posted	175,040				8,752
31	All other assets not included in the above categories	409,535	251,677	6	2,119	339,446
32	Off-balance sheet items			3,215,836		24,743
33	<b>Total RSF</b>					<b>3,569,865</b>
34	<b>Net Stable Funding Ratio (%)</b>					<b>150.3</b>

## Banking Disclosure Statement at 30 June 2021

Table 46: LIQ2 – Net stable funding ratio – for category 1 institution (continued)

	a	b	c	d	e					
						Quarter ended				
						31 Mar 2021				
		Unweighted value by residual maturity								
		No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	Weighted amount				
		HK\$m	HK\$m	HK\$m	HK\$m	HK\$m				
Basis of disclosure: consolidated										
		Footnotes								
A Available stable funding ('ASF') item										
1 Capital:		793,475	–	–	21,291	814,766				
2 <i>Regulatory capital</i>		790,366	–	–	16,526	806,892				
3 <i>Other capital instruments</i>		3,109	–	–	4,765	7,874				
4 Retail deposits and small business funding:			3,459,407	–	–	3,127,658				
5 <i>Stable deposits</i>			283,827	–	–	269,636				
6 <i>Less stable deposits</i>			3,175,580	–	–	2,858,022				
7 Wholesale funding:		–	3,035,973	27,702	21,729	1,169,159				
8 <i>Operational deposits</i>			828,983	–	–	414,492				
9 <i>Other wholesale funding</i>		–	2,206,990	27,702	21,729	754,667				
10 Liabilities with matching interdependent assets		318,884	–	–	–	–				
11 Other liabilities:		227,915	286,103	48,844	201,441	225,862				
13 <i>All other funding and liabilities not included in the above categories</i>		227,915	286,103	48,844	201,441	225,862				
14 Total ASF						5,337,445				
B Required stable funding ('RSF') item										
15 Total HQLA for NSFR purposes	1		2,115,963			84,599				
17 Performing loans and securities:		362,190	2,085,963	365,637	2,385,225	2,922,914				
18 <i>Performing loans to financial institutions secured by Level 1 HQLA</i>		–	573,221	3,360	10,258	69,260				
19 <i>Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions</i>		22,785	325,560	58,917	140,469	241,547				
20 <i>Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:</i>		168,761	1,045,866	258,877	1,218,881	1,752,479				
21 <i>With a risk-weight of less than or equal to 35% under the STC approach</i>		2,028	5,902	504	11,440	10,659				
22 <i>Performing residential mortgages, of which:</i>		–	20,094	19,363	935,115	647,848				
23 <i>With a risk-weight of less than or equal to 35% under the STC approach</i>		–	19,133	18,491	840,138	566,200				
24 <i>Securities that are not in default and do not qualify as HQLA, including exchange-traded equities</i>		170,644	121,222	25,120	80,502	211,780				
25 Assets with matching interdependent liabilities		318,884	–	–	–	–				
26 Other assets:		698,355	212,757	51	2,387	408,166				
27 <i>Physical traded commodities, including gold</i>		15,841				13,465				
28 <i>Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs</i>		26,364				22,409				
29 <i>Net derivative assets</i>		34,405				34,405				
30 <i>Total derivative liabilities before adjustments for deduction of variation margin posted</i>		211,245				10,562				
31 <i>All other assets not included in the above categories</i>		410,500	212,757	51	2,387	327,325				
32 Off-balance sheet items	1			3,233,361		25,639				
33 Total RSF						3,441,318				
34 Net Stable Funding Ratio (%)						155.1				

1 The unweighted values disclosed in these rows are not required to be split by residual maturity.

The NSFR decreased by 4.8 percentage points from 155.1% for the quarter ended 31 March 2021 to 150.3% for the quarter ended 30 June 2021, mainly as a result of the growth in loans and advances to customers.

## Other disclosures

### Mainland activities

The analysis of mainland activities is based on the categories of non-bank counterparties and the type of direct exposures defined by the HKMA under the BDR with reference to the HKMA's Return of Mainland Activities – (MA(BS)20), which includes the mainland exposures extended by the Bank's Hong Kong offices and wholly-owned banking subsidiaries in mainland China.

Table 47: Mainland activities

	On-balance sheet exposure HK\$m	Off-balance sheet exposure HK\$m	Total exposures HK\$m
<b>At 30 Jun 2021</b>			
<b>Types of counterparties</b>			
1	247,175	25,715	272,890
2	87,446	6,331	93,777
3	459,261	80,074	539,335
4	11,257	6,186	17,443
5	9,807	1,552	11,359
6	30,678	2,496	33,174
7	54,956	4,898	59,854
<b>Total</b>	<b>900,580</b>	<b>127,252</b>	<b>1,027,832</b>
<b>Total assets after provision</b>	<b>5,916,710</b>		
On-balance sheet exposures as percentage of total assets	15.22%		

### International claims

The group's country risk exposures in the table below are prepared in accordance with the HKMA Return of International Banking Statistics – (MA(BS)21) guidelines. International claims are on-balance sheet exposures to counterparties based on the location of the counterparties, after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies.

The table shows claims on individual countries and territories or areas, after recognised risk transfer, amounting to not less than 10% of the group's total international claims.

Table 48: International claims

	Banks HK\$m	Official sector HK\$m	Non-bank financial institutions HK\$m	Non-financial private sector HK\$m	Total HK\$m
<b>At 30 Jun 2021</b>					
Developed countries	527,885	385,567	374,906	473,148	1,761,506
– of which: United States	39,100	160,214	131,118	175,463	505,895
Offshore centres	76,315	65,599	173,407	539,888	855,209
– of which: Hong Kong	45,946	2,291	97,114	359,489	504,840
Developing Asia and Pacific	474,088	162,304	85,443	495,130	1,216,965
– of which: Mainland China	365,986	107,407	52,159	299,983	825,535

## Foreign currency positions

The group's foreign exchange exposures in the tables below are prepared in accordance with the HKMA return 'Foreign Currency Position Return – (MA(BS)6)'. The group had the following net structural foreign currency exposures that were not less than 10% of total net structural foreign currency positions at 30 June 2021:

Table 49: Net structural foreign currency exposures

	Net structural position	
	LCYm	HK\$m
<b>At 30 Jun 2021</b>		
Renminbi	225,835	271,593

The group had the following non-structural foreign currency positions that were not less than 10% of the net non-structural positions in all foreign currencies at 30 June 2021:

Table 50: Non-structural foreign currency positions

HK\$m equivalent	Footnotes	United States Dollars	Australian dollars
		HK\$m	HK\$m
<b>At 30 Jun 2021</b>			
Spot assets		2,325,072	563,940
Spot liabilities		(2,885,768)	(484,385)
Forward purchases		10,590,142	1,231,144
Forward sales		(10,006,838)	(1,308,821)
Net options positions		(7,510)	124
<b>Net long (net short) position</b>	1	15,098	2,002

1 The net options positions reported above are calculated using the delta-weighted positions of the options contracts.

## 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
US\$m	Millions of United States dollars

#### A

AI	Authorised institution
ASF	Available stable funding
AT1	Additional tier 1

#### B

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

#### C

CCF	Credit conversion factor
CCP <sup>1</sup>	Central counterparty
CCR <sup>1</sup>	Counterparty credit risk
CCyB <sup>1</sup>	Countercyclical capital buffer
CEM	Current exposure method
CET1 <sup>1</sup>	Common equity tier 1
CRM <sup>1</sup>	Credit risk mitigation/mitigant
CRO	Chief Risk Officer
CRR <sup>1</sup>	Customer risk rating
CSA	Credit Support Annex
CVA <sup>1</sup>	Credit valuation adjustment

#### D

D-SIB	Domestic systemically important authorised institution
DTAs	Deferred tax assets

#### E

EAD <sup>1</sup>	Exposure at default
ECL <sup>1</sup>	Expected credit loss
EL	Expected loss
EPE	Effective expected positive exposures

#### F

FIRO	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 <sup>1</sup>	Global systemically important authorised institution

#### H

HAHO	HSBC Asia Holdings Limited
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
HVCRE	High volatility commercial real estate

#### I

IAA	Internal assessment approach
IMM <sup>1</sup>	Internal Models Method
IMM(CCR)	Internal models (counterparty credit risk)
IPO	Initial public offering
IPRE	Income producing real estate
IRB <sup>1</sup>	Internal ratings-based approach
IRC	Incremental risk charge

#### J

JCCyB	Jurisdictional countercyclical capital buffer
JVs	Joint ventures

#### L

LAC	Loss-absorbing capacity
LAC Rules	Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements - Banking Sector) Rules

LCR <sup>1</sup>	Liquidity Coverage Ratio
LGD <sup>1</sup>	Loss given default
LR	Leverage ratio

#### M

MSRs	Mortgage servicing rights
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#### N

NSFR <sup>1</sup>	Net stable funding ratio
NMDs	Non-maturity and deposits

#### O

OBS	Off-balance sheet
OTC <sup>1</sup>	Over-the-counter

#### P

PD <sup>1</sup>	Probability of default
PF	Project finance
PFE	Potential future exposure
PRC	People's Republic of China
PSE	Public sector entities

#### Q

QRRE	Qualifying revolving retail exposures
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#### R

RC	Replacement cost
RNIV	Risks not in VaR
RSF	Required stable funding
RW	Risk weight
RWA <sup>1</sup>	Risk-weighted asset/risk-weighted amount

#### S

SA-CCR	Standardised approach for counterparty credit risk
SEC-ERBA	Securitisation external ratings-based approach
SEC-FBA	Securitisation fall-back approach
SEC-IRBA	Securitisation internal ratings-based approach
SEC-SA	Securitisation standardised approach
SFT	Securities Financing Transactions
SPE <sup>1</sup>	Special Purpose Entity
SRW	Supervisory risk weight
STC	Standardised (credit risk) approach
STM	Standardised (market risk) approach
STO	Standardised (operational risk) approach

#### T

T1	Tier 1
T2	Tier 2
TC	Total regulatory capital
TLAC <sup>1</sup>	Total Loss-absorbing Capacity

#### V

VaR <sup>1</sup>	Value at risk
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<sup>1</sup> Full definition included in the Glossary published on HSBC website [www.hsbc.com](http://www.hsbc.com)

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