



**The Hongkong and Shanghai Banking
Corporation Limited**

**Banking Disclosure Statement at 31 March 2018
(unaudited)**

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Introduction

Purpose

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

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

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

Basis of preparation

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

The approaches used in calculating the group's regulatory capital and risk-weighted assets ('RWAs') are in accordance with the Banking (Capital) Rules ('BCR'). The group uses the advanced internal ratings-based approach to calculate its credit risk for the majority of its non-securitisation exposures. For securitisation exposures, the group uses the securitisation internal ratings-based approach, securitisation external ratings-based approach, securitisation standardised approach or securitisation fall-back approach to determine credit risk for its banking book securitisation exposures. For market risk, the group uses an internal models approach to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold) exposures, and equity exposures. The group also uses an internal models approach to calculate its market risk in respect of specific risk for interest rate exposures and equity exposures. The group uses the standardised (market risk) approach for calculating other market risk positions, as well as trading book securitisation exposures, and the standardised (operational risk) approach to calculate its operational risk.

The Banking Disclosure Statement

The Hong Kong Monetary Authority ('HKMA') has implemented the Basel Committee on Banking Supervision ('BCBS') standards on revised Pillar 3 disclosures issued in January 2015. These disclosures are supplemented by specific additional requirements of the HKMA set out in the BDR.

According to the BDR, disclosure of comparative information is not required unless otherwise specified in the standard disclosure templates. Prior period disclosures can be found in the Regulatory Disclosure section of our website, www.hsbc.com.hk.

Capital and RWAs

Capital ratios

The following table shows the capital ratios as contained in the 'Capital Adequacy Ratio' return submitted to the HKMA on a

consolidated basis under the requirements of section 3C(1) of the BCR.

Table 1: Capital ratios

	<i>Footnotes</i>	31 Mar 2018
		%
CET1 capital ratio	1	15.0
Tier 1 capital ratio	2	16.3
Total capital ratio	3	18.5
		HK\$m
CET1 capital		429,683
Tier 1 capital		465,593
Total capital		529,687
Total RWAs	4	2,857,038

- 1 Common equity tier 1 ('CET1') capital ratio equals CET1 capital divided by Total RWAs.
 2 Tier 1 capital ratio equals Tier 1 capital divided by Total RWAs.
 3 Total capital ratio equals Total capital divided by Total RWAs.
 4 The total RWAs is after application of the scaling factor of 1.06.

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 Part1C of the BCR.

Table 2: Leverage ratio

	<i>Footnote</i>	31 Mar 2018
		%
Leverage ratio	1	6.0
		HK\$m
Tier 1 capital		465,593
Total exposure measure		7,710,103

- 1 Leverage ratio equals Tier 1 capital divided by Total exposure measure.

Overview of the minimum capital requirements and RWAs

The following table provides an overview of the minimum capital

requirements and RWAs by risk type and approach, as contained in the 'Capital Adequacy Ratio' return. Minimum capital requirement represents the Pillar 1 capital charge at 8% of RWAs.

Table 3: OV1 – Overview of RWA

	Footnotes	a	b	c
		RWA ¹		Minimum capital requirements
		31 Mar 2018 HK\$m	31 Dec 2017 HK\$m	31 Mar 2018 HK\$m
1	Credit risk for non-securitisation exposures	2,014,414	1,962,308	169,491
2	<i>Of which: standardised credit risk ('STC') approach</i>	277,344	268,303	22,188
3	<i>Of which: internal ratings-based ('IRB') approach</i>	1,737,070	1,694,005	147,303
4	Counterparty credit risk	143,713	130,309	11,891
5	<i>Of which: standardised approach for counterparty credit risk ('SA-CCR')</i>	80,185	73,041	6,776
7	Equity exposures in banking book under the market-based approach	28,725	26,723	2,436
11	Settlement risk	27	29	2
12	Securitisation exposures in banking book	17,312	10,050	1,385
14	<i>Of which: securitisation external ratings-based approach ('SEC-ERBA')</i>	17,312	10,050	1,385
16	Market risk	130,637	115,077	10,451
17	<i>Of which: standardised market risk ('STM') approach</i>	2,843	2,500	228
18	<i>Of which: internal models ('IMM') approach</i>	127,794	112,577	10,223
19	Operational risk	304,974	302,890	24,398
21	<i>Of which: standardised operational risk ('STO') approach</i>	304,974	302,890	24,398
23	Amounts below the thresholds for deduction (subject to 250% RW)	134,153	131,185	11,376
24a	Deduction to RWA	35,839	36,169	2,867
24b	<i>Of which: portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital</i>	489	672	39
24c	<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>	35,350	35,497	2,828
25	Total	2,738,116	2,642,402	228,563

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

² Prior to the implementation of SA-CCR, exposures reported here are under the current exposure method.

³ From 1 January 2018, the supervisory formula method under the internal ratings-based (securitisation) approach ('IRB(S)') is replaced by the securitisation external ratings-based approach ('SEC-ERBA').

Credit risk for non-securitisation exposures

RWAs increased by HK\$52,106m in the first quarter, mainly driven by growth in corporate lending in Hong Kong, China and India.

Market risk

Market risk RWAs increased by HK\$15,560m during the first quarter, mainly driven by VaR and IRC increases.

RWA flow statements

RWA flow statement for credit risk

The following table shows movements in RWAs for credit risk determined under the IRB approach. The analysis is prepared in

accordance with the key drivers as specified in the standard template. For the purposes of this section, any reference to exposures related to 'credit risk' is referring to credit risk for non-securitisation exposures excluding counterparty credit risk.

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

		a
		HK\$m
1	RWA as at 31 Dec 2017	1,694,005
2	Asset size	39,275
3	Asset quality	(4,334)
4	Model updates	(4,965)
5	Methodology and policy	(1,895)
7	Foreign exchange movements	14,984
9	RWA as at 31 Mar 2018	1,737,070

Credit risk RWAs under the IRB approach increased by HK\$43,065m in the first quarter of the year, including an increase of HK\$14,984m due to foreign currency translation differences.

The increase in asset size of HK\$39,275m was principally a result of growth in corporate loan books in Hong Kong, China and India.

RWA flow statement for market risk

The following table shows movements in RWAs for market risk determined under the internal models ('IMM') approach. The analysis is prepared in accordance with the key drivers as specified in the standard template.

Table 5: MR2 – RWA flow statement of market risk exposures under IMM approach

		a	b	c	e	f
		VaR	Stressed VaR	IRC	Other	Total RWA
		HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
1	RWA as at 31 Dec 2017	15,691	35,621	40,084	21,181	112,577
2	Movement in risk levels	3,465	(2,411)	11,272	2,411	14,737
6	Foreign exchange movements	67	152	171	90	480
8	RWA as at 31 Mar 2018	19,223	33,362	51,527	23,682	127,794

The increase in Market Risk RWAs was mainly driven by VaR and IRC increases.

Other information

Abbreviations

The following abbreviated terms are used throughout this document:

Currencies

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

B

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

C

CET1 ¹	Common equity tier 1
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G

Group	HSBC Holdings together with its subsidiary undertakings
group	The Hongkong and Shanghai Banking Corporation Limited together with its subsidiary undertakings

H

HKMA	Hong Kong Monetary Authority
Hong Kong	The Hong Kong Special Administrative Region of the People's Republic of China
HSBC	HSBC Holdings together with its subsidiary undertakings

I

IMM ¹	Internal Model Method
IRB ¹	Internal ratings-based approach
IRB(S)	Internal ratings-based (securitisation) approach
IRC ¹	Incremental risk charge

R

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

SA-CCR	Standardised approach for counterparty credit risk
SEC-ERBA	Securitisation external ratings-based approach
STC	Standardised (credit risk) approach
STM	Standardised (market risk) approach
STO	Standardised (operational risk) approach

V

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