



**The Hongkong and Shanghai Banking
Corporation Limited**

**Banking Disclosure Statement at 30 September 2017
(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 and the Regulatory Capital Instruments document, taken together, comply 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 group has adopted the requirements of HKFRS 9 'Financial Instruments' relating to the presentation of gains and losses on financial liabilities designated at fair value from 1 January 2017. As a result, the effects of changes in those liabilities' credit risk are presented in other comprehensive income with the remaining effect presented, when required, in profit or loss. As permitted by the transitional requirements of HKFRS 9, comparatives have not been restated. Except as described above, the accounting policies applied by the group for this document are consistent with those described in Note 1 of the *Annual Report and Accounts 2016*, as are the methods of computation.

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 and the internal ratings-based (securitisation) ('IRB(S)') 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.

The Banking Disclosure Statement includes the majority of the information required under the BDR. The remainder of the disclosure requirements are covered in the Regulatory Capital Instruments document which can be found in the Regulatory Disclosure section of our website, www.hsbc.com.hk.

Disclosure requirements covered in the Regulatory Capital Instruments document:

- The main features of the capital instruments.
 - The full terms and conditions of the capital instruments.
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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

	Footnotes	30 Sep 2017 %
CET1 capital ratio	1	15.4
Tier 1 capital ratio	2	16.5
Total capital ratio	3	18.5
		HK\$m
CET1 capital		423,873
Tier 1 capital		453,771
Total capital		509,785
Total RWAs	4	2,758,187

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 'Quarterly Template

on Leverage Ratio' submitted to the HKMA on a consolidated basis under the requirements specified in the 'Leverage Ratio Framework'.

Table 2: Leverage ratio

	Footnote	30 Sep 2017 %
Leverage ratio	1	6.1
Capital and leverage ratio exposure measure		HK\$m
Tier 1 capital		453,771
Total exposure measure		7,405,036

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

	a	b	c
	RWA ¹		Minimum capital requirements
	30 Sep 2017	30 Jun 2017	30 Sep 2017
	HK\$m	HK\$m	HK\$m
1 Credit risk for non-securitisation exposures	1,936,399	1,906,885	162,902
2 <i>Of which: standardised credit risk ('STC') approach</i>	271,773	268,212	21,742
3 <i>Of which: internal ratings-based ('IRB') approach</i>	1,664,626	1,638,673	141,160
4 Counterparty credit risk	152,202	154,795	12,579
5 <i>Of which: standardised approach for counterparty credit risk ('SA-CCR')</i>	80,917	81,890	6,840
7 Equity exposures in banking book under the market-based approach	28,278	28,099	2,398
11 Settlement risk	23	44	2
12 Securitisation exposures in banking book	8,759	9,183	743
13 <i>Of which: IRB(S) approach – ratings-based method</i>	8,759	9,183	743
16 Market risk	125,794	109,646	10,064
17 <i>Of which: standardised market risk ('STM') approach</i>	383	384	31
18 <i>Of which: internal models ('IMM') approach</i>	125,411	109,262	10,033
19 Operational risk	300,606	300,351	24,048
21 <i>Of which: standardised operational risk ('STO') approach</i>	300,606	300,351	24,048
23 Amounts below the thresholds for deduction (subject to 250% RW)	126,415	122,563	10,720
24a Deduction to RWA	35,014	35,280	2,801
24b <i>Of which: portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital</i>	598	542	48
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>	34,416	34,738	2,753
25 Total	2,643,462	2,596,286	220,655

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 mark-to-market method.

Credit risk for non-securitisation exposures

Total RWAs increased by HK\$29,514m in the third quarter of the year, mainly driven by growth in corporate lending and trade finance in Hong Kong and China.

Market risk

Market risk RWAs increased by HK\$16,148m during the third quarter mainly from movements in risk levels.

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 statements of credit risk exposures under IRB approach

		a
		HK\$m
1	RWA as at 30 Jun 2017	1,638,673
2	Asset size	41,435
3	Asset quality	(2,407)
4	Model updates	(20,280)
5	Methodology and policy	221
7	Foreign exchange movements	6,984
9	RWA as at 30 Sep 2017	1,664,626

Credit risk RWAs under IRB approach increased by HK\$25,953m in the third quarter of the year. The increase in asset size by HK\$41,435m was principally a result of growth in corporate lending in Hong Kong and China. The decrease in model updates by HK\$20,280m is driven by the implementation of a recalibrated Sovereign probability of default ('PD') model approved by the HKMA.

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 statements 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 30 Jun 2017	14,603	25,905	49,446	19,308	109,262
2	Movement in risk levels	2,022	12,796	(2,202)	3,372	15,988
3	Model updates/changes	(445)	(726)	1,273	–	102
6	Foreign exchange movements	8	14	27	10	59
8	RWA as at 30 Sep 2017	16,188	37,989	48,544	22,690	125,411

Market risk RWAs arising from internal models increased by HK\$16,149m during the third quarter mainly from movements in risk levels.

Other information

Abbreviations

The following abbreviated terms are used throughout this document.

Currencies

HK\$m	Millions of Hong Kong dollars
HK\$bn	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
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H

HKFRS	Hong Kong Financial Reporting Standards
HKMA	Hong Kong Monetary Authority
Hong Kong	The Hong Kong Special Administrative Region of the People's Republic of China
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

P

PD ¹	Probability of default
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R

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

SA-CCR	Standardised approach for counterparty credit risk
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