



**The Hongkong and Shanghai Banking  
Corporation Limited**

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

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## Introduction

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### 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.

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### 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.

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

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

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

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

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

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

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 <b>RWA as at 31 Dec 2017</b>	<b>15,691</b>	<b>35,621</b>	<b>40,084</b>	<b>21,181</b>	<b>112,577</b>
2 Movement in risk levels	<b>3,465</b>	<b>(2,411)</b>	<b>11,272</b>	<b>2,411</b>	<b>14,737</b>
6 Foreign exchange movements	<b>67</b>	<b>152</b>	<b>171</b>	<b>90</b>	<b>480</b>
8 <b>RWA as at 31 Mar 2018</b>	<b>19,223</b>	<b>33,362</b>	<b>51,527</b>	<b>23,682</b>	<b>127,794</b>

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

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## Other information

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### 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 <sup>1</sup>	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 <sup>1</sup>	Internal Model Method
IRB <sup>1</sup>	Internal ratings-based approach
IRB(S)	Internal ratings-based (securitisation) approach
IRC <sup>1</sup>	Incremental risk charge

#### R

RWA <sup>1</sup>	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 <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)