

The Hongkong and Shanghai Banking Corporation Limited

**Banking Disclosure Statement at 30 September 2023
(Unaudited)**

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Introduction

Purpose

The information contained in this document relates to The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries (together 'the group'). 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.

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\$b' 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 by the HSBC Global Internal Audit team and has been approved by the Audit Committee as delegated by the Board.

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 ('IRB') approach to calculate its credit risk for the majority of its non-securitisation exposures. For collective investment scheme ('CIS') exposures, the group uses the look-through approach ('LTA') and mandate-based approach ('MBA') to calculate the RWA. For securitisation exposures, the group uses the securitisation internal ratings-based approach ('SEC-IRBA'), securitisation external ratings-based approach ('SEC-ERBA'), or securitisation standardised approach ('SEC-SA') 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) ('IMM(CCR)') approach to calculate its default risk exposures for derivatives, and the comprehensive approach for securities financing transactions ('SFTs'). For market risk, the group uses an internal models ('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) approach to calculate its operational risk.

The Banking Disclosure Statement

The group's Banking Disclosure Statement at 30 September 2023 comprises Pillar 3 information required under the framework of the Basel Committee on Banking Supervision. The disclosures are made in accordance with the latest BDR and the LAC Rules issued by the Hong Kong Monetary Authority ('HKMA'). According to the BDR and the LAC Rules, disclosure of comparative information is not required unless otherwise specified in the standard disclosure templates. Prior period disclosures can be found in the Regulatory Disclosure section of our website, www.hsbc.com.hk.

The Banking Disclosure Statement includes 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 *Annual Report and Accounts 2022* which can be found in the Regulatory Disclosure section of our website, www.hsbc.com.hk.

Loss-absorbing Capacity ('LAC') Disclosures

HSBC Asia Holdings Limited ('HAHO'), a wholly-owned subsidiary of HSBC Holdings plc and the intermediate holding company of the group, is designated as the resolution entity for the group, where adequate LAC has to be available in a form that will be bailed-in at the point of resolution. The group's LAC disclosures are included as part of this Banking Disclosure Statement while the LAC disclosures of 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. The location of HAHO's LAC disclosures can be found in the following table:

Location of HAHO's LAC disclosures at 3Q23:

- KM2 – Key metrics of the Asian resolution group
- Page 9 of the HSBC 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-debt-main-features

Key metrics

Table 1: KM1 – Key prudential ratios

	a	b	c	d	e
	At				
	30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2022	30 Sep 2022
Regulatory capital (HK\$m)¹					
1 Common Equity Tier 1 ('CET1')	491,960	499,296	510,956	491,562	469,133
2 Tier 1	545,780	553,095	564,908	545,572	523,053
3 Total capital	610,604	619,107	629,800	607,312	582,105
RWAs (HK\$m)¹					
4 Total RWAs	3,165,255	3,166,612	3,173,613	3,222,168	3,186,026
Risk-based regulatory capital ratios (as a percentage of RWA)¹					
5 CET1 ratio (%)	15.5	15.8	16.1	15.3	14.7
6 Tier 1 ratio (%)	17.2	17.5	17.8	16.9	16.4
7 Total capital ratio (%)	19.3	19.6	19.8	18.8	18.3
Additional CET1 buffer requirements (as a percentage of RWA)¹					
8 Capital conservation buffer requirement (%)	2.50	2.50	2.50	2.50	2.50
9 Countercyclical capital buffer ('CCyB') requirement (%) ²	0.57	0.57	0.56	0.56	0.51
10 Higher loss absorbency requirement (%) (applicable only to Global systemically important authorised institution ('G-SIBs') or Domestic systemically important authorised institution ('D-SIBs'))	2.50	2.50	2.50	2.50	2.50
11 Total authorised institution ('AI')-specific CET1 buffer requirements (%)	5.57	5.57	5.56	5.56	5.51
12 CET1 available after meeting the AI's minimum capital requirements (%)	11.0	11.3	11.6	10.8	10.2
Basel III leverage ratio³					
13 Total leverage ratio ('LR') exposure measure (HK\$m)	9,582,574	9,499,334	9,475,334	9,301,363	9,266,023
14 LR (%)	5.7	5.8	6.0	5.9	5.6
Liquidity Coverage Ratio ('LCR')⁴					
15 Total high quality liquid assets ('HQLA') (HK\$m)	1,968,975	1,951,506	1,896,005	1,886,003	1,902,154
16 Total net cash outflows (HK\$m)	1,217,708	1,236,386	1,215,253	1,196,437	1,230,424
17 LCR (%)	161.7	158.0	156.5	157.8	154.8
Net Stable Funding Ratio ('NSFR')⁵					
18 Total available stable funding (HK\$m)	5,533,607	5,579,672	5,646,959	5,542,592	5,381,772
19 Total required stable funding (HK\$m)	3,609,806	3,708,853	3,703,516	3,639,518	3,649,224
20 NSFR (%)	153.3	150.4	152.5	152.3	147.5

- 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 BCR.
- ² The jurisdictional CCyB of Hong Kong used in the calculation of the CCyB buffer requirement has been 1.0% since 31 March 2020. The jurisdictional CCyB of other countries used in the calculation of the CCyB requirement ranged from 0% to 2.5% at 30 September 2023.
- 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 LCRs 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 NSFR 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.

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

	a	b	c	d	e	
	At					
	30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2022	30 Sep 2022	
At LAC consolidation group level						
1	Internal loss-absorbing capacity available (HK\$m)	847,264	864,323	904,573	841,962	802,755
2	Risk-weighted amount under the LAC Rules (HK\$m)	3,165,255	3,166,612	3,173,613	3,222,168	3,186,026
3	Internal LAC risk-weighted ratio (%)	26.8	27.3	28.5	26.1	25.2
4	Exposure measure under the LAC Rules (HK\$m)	9,576,735	9,493,579	9,469,537	9,294,951	9,259,655
5	Internal LAC leverage ratio (%)	8.8	9.1	9.6	9.1	8.7
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 exemptions in the antepenultimate and penultimate paragraphs of Section 11 of the FSB TLAC Term Sheet do not apply in Hong Kong under the LAC Rules.

Internal LAC available decreased by HK\$17.1bn in the third quarter of 2023, arising from a decrease of HK\$8.5bn in regulatory capital elements and a decrease of HK\$8.6bn in non-regulatory capital elements.

The decrease in regulatory capital elements was mainly due to:

- an increase of HK\$30.4bn from dividends paid, net of an increase in regulatory profits of HK\$24.0bn;
- a decrease of HK\$4.3bn from unfavourable foreign currency translation differences; and
- a decrease of HK\$0.9bn in allowable non-controlling interests;

partly offset by

- an increase of HK\$2.4bn in fair value through other comprehensive income reserve; and
- a decrease of HK\$1.1bn in threshold deduction for significant investments in financial sector entities.

The decrease in non-regulatory capital elements was mainly driven by the redemption of LAC capital instruments of HK\$20.4bn and a decrease in carrying value of LAC instruments of HK\$6.1bn, partly offset by the issuance of new LAC instruments of HK\$18.0bn.

Capital and RWAs

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 3: LR2 – Leverage ratio

	a	b
	30 Sep 2023 HK\$m	30 Jun 2023 HK\$m
On-balance sheet exposures		
1	7,859,262	7,795,479
2	(269,835)	(271,810)
3	7,589,427	7,523,669
Exposures arising from derivative contracts		
4	154,247	148,893
5	293,073	298,780
7	(114,835)	(112,422)
8	(46,984)	(42,830)
9	216,461	207,642
10	(201,369)	(192,347)
11	300,593	307,716
Exposures arising from SFTs		
12	1,001,647	1,012,820
13	(14,848)	(25,922)
14	38,316	32,961
16	1,025,115	1,019,859
Other off-balance sheet exposures		
17	3,785,577	3,695,925
18	(3,076,322)	(3,006,572)
19	709,255	689,353
Capital and total exposures		
20	545,780	553,095
20a	9,624,390	9,540,597
20b	(41,816)	(41,263)
21	9,582,574	9,499,334
Leverage ratio		
22	5.7	5.8

¹ Leverage ratio is the ratio of Tier 1 capital to the total exposures after adjustments for specific and collective provisions.

The leverage ratio was 5.7% at 30 September 2023, a decrease from 5.8% at 30 June 2023 due to lower Tier 1 capital and an increase in exposures. Total exposures increased by HK\$83.2bn in the third quarter of 2023, mainly due to increases in financial investments and loans and advances to banks by HK\$156.9bn, partly offset by a decrease of HK\$89.0bn from loans and advances to customers.

Overview of RWAs and the minimum capital requirements

Table 4: OV1 – Overview of RWAs

	a	b	c
	RWAs ¹	RWAs ¹	Minimum capital requirements ²
	30 Sep 2023	30 Jun 2023	30 Sep 2023
	HK\$m	HK\$m	HK\$m
1 Credit risk for non-securitisation exposures	2,205,944	2,209,037	185,974
2 <i>of which: standardised (credit risk) ('STC') approach</i>	227,056	243,236	18,164
4 <i>of which: supervisory slotting criteria approach</i>	135,065	133,624	11,454
5 <i>of which: advanced IRB approach</i>	1,843,823	1,832,177	156,356
6 Counterparty default risk and default fund contributions	100,320	101,434	8,418
7 <i>of which: SA-CCR</i>	45,646	47,215	3,840
8 <i>of which: IMM(CCR) approach</i>	31,211	33,424	2,625
9 <i>of which: Others</i>	23,463	20,795	1,953
10 Credit valuation adjustment ('CVA') Risk	42,160	46,221	3,373
11 Equity positions in banking book under the simple risk-weight method and the internal models method	27,687	28,093	2,348
12 Collective investment scheme ('CIS') exposures – LTA	1,378	1,227	117
13 CIS exposures – MBA	309	313	26
15 Settlement risk	36	51	3
16 Securitisation exposures in banking book	6,624	6,303	529
17 <i>of which: SEC-IRBA</i>	31	20	2
18 <i>of which: SEC-ERBA including internal assessment approach ('IAA')</i>	1,389	1,603	111
19 <i>of which: SEC-SA</i>	5,204	4,680	416
20 Market risk	149,376	158,369	11,953
21 <i>of which: STM approach</i>	1,565	1,811	128
22 <i>of which: IMM approach</i>	147,811	156,558	11,825
24 Operational risk	372,058	357,414	29,765
24a Sovereign concentration risk	3,258	1,034	261
25 Amounts below the thresholds for deduction (subject to 250% risk weight ('RW'))	158,895	161,010	13,474
26a Deduction to RWAs	37,769	38,384	3,021
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>	37,769	38,384	3,021
27 Total	3,030,276	3,032,122	253,220

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

2 Minimum capital requirement represents the Pillar 1 capital charge at 8% of the RWAs after application of the 1.06 scaling factor, where applicable.

RWA flow statements

RWA flow statement for credit risk

Table 5: CR8 – RWA flow statement of credit risk¹ exposures under IRB approach

		a
		HK\$m
1	RWAs as at 30 Jun 2023	1,965,801
2	Asset size	34,457
3	Asset quality	(8,750)
5	Methodology and policy	138
7	Foreign exchange movements	(12,758)
9	RWAs as at 30 Sep 2023	1,978,888

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

RWAs under the IRB approach increased by HK\$13.1bn in the third quarter of 2023. Excluding the decrease arising from foreign currency translation differences of HK\$12.8bn, the increase from higher asset size of HK\$34.5bn represents an underlying increase in total exposures.

RWA flow statement for CCR

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

		a
		HK\$m
1	RWAs as at 30 Jun 2023	33,424
2	Asset size	(2,193)
3	Credit quality of counterparties	335
4	Model updates	(338)
7	Foreign exchange movements	(17)
9	RWAs as at 30 Sep 2023	31,211

RWA flow statement for market risk

Table 7: MR2 – RWA flow statement of market risk exposures under IMM approach

	a	b	c	e	f
	Value at risk (‘VaR’) HK\$m	Stressed VaR (‘SVaR’) HK\$m	Incremental risk charge (‘IRC’) HK\$m	Other HK\$m	Total RWAs HK\$m
1	22,787	43,623	33,115	57,033	156,558
2	7,618	7,386	(261)	(23,408)	(8,665)
6	(12)	(23)	(17)	(30)	(82)
8	30,393	50,986	32,837	33,595	147,811

Liquidity information

The group is required to calculate its LCR on a consolidated basis in accordance with rule 11(1) of the BLR, and is required to maintain an LCR of not less than 100%.

Table 8: Average LCR

	Quarter ended
	30 Sep 2023
	%
Average LCR	161.7

Table 9: Total weighted amount of HQLA

	Weighted amount (average value at quarter ended)
	30 Sep 2023
	HK\$m
Level 1 assets	1,809,136
Level 2A assets	100,104
Level 2B assets	59,735
Total	1,968,975

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

All operating entities are required to monitor their material single currency LCR. Limits are set to ensure that outflows can be met, given assumptions on stressed capacity in the foreign exchange swap markets.

Under the terms of our current collateral obligations of derivative contracts (which are International Swaps and Derivatives Association compliant Credit Support Annex contracts), the additional collateral we would be required to post in the event of a one-notch and two-notch downgrade in our credit ratings is not significant.

Information relating to the Bank's approach to liquidity risk management can be found in the Risk Report of the group's *Annual Report and Accounts 2022*.

Banking Disclosure Statement at 30 September 2023

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

Number of data points used in calculating the average value of the LCR and related components set out in this table for the quarter ended 30 September 2023: 74		a	b
		Quarter ended 30 Sep 2023	
		Unweighted value (average) HK\$m	Weighted value (average) HK\$m
Basis of disclosure: consolidated			
A	HQLA		
1	Total HQLA		1,968,975
B	Cash outflows		
2	Retail deposits and small business funding, of which:	3,614,024	342,112
3	<i>Stable retail deposits and stable small business funding</i>	276,047	8,314
4	<i>Less stable retail deposits and less stable small business funding</i>	3,337,977	333,798
5	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the AI, of which:	2,412,968	1,133,769
6	<i>Operational deposits</i>	712,180	173,539
7	<i>Unsecured wholesale funding (other than small business funding) not covered in Row 6</i>	1,689,470	948,912
8	<i>Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period</i>	11,318	11,318
9	Secured funding transactions (including securities swap transactions)		42,682
10	Additional requirements, of which:	1,249,213	363,908
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	230,994	230,944
12	<i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	4,263	4,263
13	<i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	1,013,956	128,701
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	196,741	196,741
15	Other contingent funding obligations (whether contractual or non-contractual)	2,722,636	22,165
16	Total cash outflows		2,101,377
C	Cash inflows		
17	Secured lending transactions (including securities swap transactions)	927,637	116,882
18	Secured and unsecured loans (other than secured lending transactions covered in Row 17) and operational deposits placed at other financial institutions	854,116	477,418
19	Other cash inflows	290,153	289,369
20	Total cash inflows	2,071,906	883,669
D	Liquidity coverage ratio (adjusted value)		
21	Total HQLA		1,968,975
22	Total net cash outflows		1,217,708
23	LCR (%)		161.7

Other information

Abbreviations

The following abbreviated terms are used throughout this document:

Currencies

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

A

AI	Authorised institution
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B

BCR	Banking (Capital) Rules
BDR	Banking (Disclosure) Rules
BLR	Banking (Liquidity) Rules

C

CCP	Central counterparty
CCR	Counterparty credit risk
CCyB	Countercyclical capital buffer
CET1 ¹	Common equity tier 1
CIS	Collective investment scheme
CVA	Credit valuation adjustment

D

D-SIB	Domestic systemically important authorised institution
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F

FSB	Financial Stability Board
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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
G-SIB ¹	Global systemically important authorised institution

H

HAHO	HSBC Asia Holdings Limited
HKMA	Hong Kong Monetary Authority
Hong Kong	The Hong Kong Special Administrative Region of the People's Republic of China
HQLA	High quality liquid assets
HSBC	HSBC Holdings together with its subsidiary undertakings
HSBC Group	HSBC Holdings together with its subsidiary undertakings

I

IAA	Internal assessment approach
IMM ¹	Internal model method
IMM(CCR)	Internal models (counterparty credit risk)
IRB ¹	Internal ratings-based approach
IRC ¹	Incremental risk charge

L

LAC	Loss-absorbing capacity
LAC Rules	Financial Institutions (Resolution) (Loss-absorbing Capacity Requirement – Banking Sector) Rules
LCR	Liquidity coverage ratio
LR	Leverage ratio
LTA	Look-through approach

M

MBA	Mandate-based approach
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N

NSFR	Net stable funding ratio
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P

PFE ¹	Potential future exposure
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R

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

SA-CCR	Standardised (counterparty credit risk) approach
SEC-ERBA	Securitisation external ratings-based approach
SEC-IRBA	Securitisation internal ratings-based approach
SEC-SA	Securitisation standardised approach
SFT	Securities financing transaction
STC	Standardised (credit risk) approach
STM	Standardised (market risk) approach
SVaR	Stressed Value at risk

T

TLAC	Total loss-absorbing capacity
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V

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

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