

The Hongkong and Shanghai Banking Corporation Limited

**Banking Disclosure Statement at 31 March 2021
(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 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.

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 counterparty credit risk, the group uses both the current exposure method and an internal models approach to calculate its default risk 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 group's Banking Disclosure Statement at 31 March 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 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 2020* which can be found in the Regulatory Disclosure section of our website, 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. The location of HAHO's LAC disclosure can be found in the following table:

Location of HAHO's LAC disclosures at 1Q21:

- KM2 – Key metrics of the Asian resolution group
 - Page 7 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
-

Banking Disclosure Statement at 31 March 2021

Key metrics

Table 1: KM1 – Key prudential ratios

		a	b	c	d	e
		At				
	Footnotes	31 Mar 2021	31 Dec 2020	30 Sep 2020	30 Jun 2020	31 Mar 2020
Regulatory capital (HK\$m)						
1	Common Equity Tier 1 ('CET1')	496,026	509,452	505,315	491,594	468,406
2	Tier 1	542,161	555,553	551,305	537,507	514,224
3	Total capital	601,024	614,545	610,902	596,815	574,864
Risk-weighted assets ('RWAs') (HK\$m)						
4	Total RWAs	3,011,181	2,956,993	3,029,053	2,942,719	2,905,598
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	16.5	17.2	16.7	16.7	16.1
6	Tier 1 ratio (%)	18.0	18.8	18.2	18.3	17.7
7	Total capital ratio (%)	20.0	20.8	20.2	20.3	19.8
Additional CET1 buffer requirements (as a percentage of RWA)						
8	Capital conservation buffer requirement (%)	2.50	2.50	2.50	2.50	2.50
9	Countercyclical capital buffer ('CCyB') requirement (%)	0.51	0.51	0.53	0.52	0.52
10	Higher loss absorbency requirement (%) (applicable only to G-SIBs or D-SIBs)	2.50	2.50	2.50	2.50	2.50
11	Total AI-specific CET1 buffer requirements (%)	5.51	5.51	5.53	5.52	5.52
12	CET1 available after meeting the authorised institution's ('AI's') minimum capital requirements (%)	12.0	12.7	12.2	12.2	11.6
Basel III leverage ratio						
13	Total leverage ratio ('LR') exposure measure (HK\$m)	8,895,440	8,705,672	8,659,463	8,474,009	8,185,571
14	LR (%)	6.1	6.4	6.4	6.3	6.3
Liquidity Coverage Ratio ('LCR')						
15	Total high quality liquid assets ('HQLA') (HK\$m)	2,021,618	1,982,999	1,940,757	1,730,870	1,724,361
16	Total net cash outflows (HK\$m)	1,258,857	1,154,822	1,141,000	1,067,926	1,073,924
17	LCR (%)	160.7	172.1	170.4	162.0	160.8
Net Stable Funding Ratio ('NSFR')						
18	Total available stable funding (HK\$m)	5,337,445	5,388,197	5,211,670	5,145,116	5,015,769
19	Total required stable funding (HK\$m)	3,441,318	3,382,462	3,417,697	3,421,671	3,502,785
20	NSFR (%)	155.1	159.3	152.5	150.4	143.2

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 31 March 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.

Total capital decreased by HK\$13.5bn in the first quarter of 2021, mainly as a result of:

- a HK\$3.4bn decrease from unfavourable foreign currency translation differences;
- a HK\$2.8bn decrease from regulatory profits, net of dividends;
- a HK\$5.5bn increase in the threshold deduction for significant investments in financial sector entities;
- a HK\$1.3bn decrease in fair value through other comprehensive income reserve;
- a HK\$1.3bn increase in the regulatory reserve deduction; offset by
- a HK\$1.0bn increase in allowable minority interests.

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

		a	b	c	d	e
		At				
		31 Mar 2021	31 Dec 2020	30 Sep 2020	30 Jun 2020	31 Mar 2020
Footnotes						
At LAC consolidation group level						
1	Internal loss-absorbing capacity available (HK\$m)	753,000	792,498	787,043	773,180	744,305
2	Risk-weighted amount under the LAC Rules (HK\$m)	3,011,181	2,956,993	3,029,053	2,942,719	2,905,598
3	Internal LAC risk-weighted ratio (%)	25.0	26.8	26.0	26.3	25.6
4	Exposure measure under the LAC Rules (HK\$m)	8,887,602	8,697,936	8,651,756	8,466,242	8,178,584
5	Internal LAC leverage ratio (%)	8.5	9.1	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?	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?	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 (%)	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 loss-absorbing capacity decreased by HK\$39.5bn in the first quarter of 2021 from a decrease in the non-regulatory capital elements of HK\$26.0bn, largely due to an instrument no longer qualifying as LAC, and a decrease in regulatory capital of HK\$13.5bn. The decrease in LAC drove down both the internal LAC risk-weighted ratio and internal LAC leverage ratio.

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	
	31 Mar 2021 HK\$m	31 Dec 2020 HK\$m	
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and securities financing transactions ('SFTs'), but including collateral)	7,312,997	7,281,124
2	Less: Asset amounts deducted in determining Tier 1 capital	(241,202)	(233,841)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	7,071,795	7,047,283
Exposures arising from derivative contracts			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	99,649	84,808
5	Add-on amounts for potential future exposure ('PFE') associated with all derivative contracts	297,816	282,488
8	Less: Exempted central counterparty ('CCP') leg of client-cleared trade exposures	(5,662)	(5,371)
9	Adjusted effective notional amount of written credit derivative contracts	252,776	254,480
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	(235,792)	(238,281)
11	Total exposures arising from derivative contracts	408,787	378,124
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	779,686	674,052
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	(23,368)	(19,276)
14	Counterparty credit risk ('CCR') exposure for SFT assets	71,234	47,215
16	Total exposures arising from SFTs	827,552	701,991
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	3,210,740	3,160,852
18	Less: Adjustments for conversion to credit equivalent amounts	(2,593,776)	(2,552,114)
19	Off-balance sheet items	616,964	608,738
Capital and total exposures			
20	Tier 1 capital	542,161	555,553
20a	Total exposures before adjustments for specific and collective provisions	8,925,098	8,736,136
20b	Adjustments for specific and collective provisions	(29,658)	(30,464)
21	Total exposures after adjustments for specific and collective provisions	8,895,440	8,705,672
Leverage ratio			
22	Leverage ratio	6.1%	6.4%

Total exposures increased by HK\$189,768m in the first quarter of 2021 primarily due to increases in securities financing transaction exposures from reverse repo trades in Hong Kong, India and Thailand.

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
	31 Mar 2021 HK\$m	31 Dec 2020 HK\$m	31 Mar 2021 HK\$m
1 Credit risk for non-securitisation exposures	2,128,119	2,085,818	179,370
2 <i>of which: standardised credit risk ('STC') approach</i>	227,955	210,830	18,236
4 <i>of which: supervisory slotting criteria approach</i>	70,761	70,626	6,000
5 <i>of which: advanced internal ratings-based ('IRB') approach</i>	1,829,403	1,804,362	155,134
6 Counterparty default risk and default fund contributions	88,187	82,452	7,415
7a <i>of which: current exposure method ('CEM')</i>	22,785	19,864	1,902
8 <i>of which: internal models (counterparty credit risk) ('IMM(CCR)') approach</i>	39,103	43,310	3,295
9 <i>of which: Others</i>	26,299	19,278	2,218
10 Credit valuation adjustment ('CVA') Risk	27,827	26,954	2,226
11 Equity positions in banking book under the simple risk-weight method and the internal models method	41,651	38,302	3,532
15 Settlement risk	91	117	8
16 Securitisation exposures in banking book	9,217	10,229	738
18 <i>of which: securitisation external ratings-based approach ('SEC-ERBA') including internal assessment approach ('IAA')</i>	6,610	8,020	529
19 <i>of which: securitisation standardised approach ('SEC-SA')</i>	2,607	2,209	209
20 Market risk	111,813	107,621	8,948
21 <i>of which: standardised market risk ('STM') approach</i>	3,785	3,476	306
22 <i>of which: internal models ('IMM') approach</i>	108,028	104,145	8,642
24 Operational risk	355,365	356,861	28,429
25 Amounts below the thresholds for deduction (subject to 250% RW)	155,358	157,328	13,174
26a Deduction to RWAs	36,827	37,218	2,946
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>	36,827	37,218	2,946
27 Total	2,880,801	2,828,464	240,894

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.

Credit risk for non-securitisation exposures

RWAs increased by HK\$42,301m in the first quarter of 2021, including a decrease of HK\$8,359m from foreign currency translation differences. Excluding the foreign currency translation differences, the increase of HK\$50,660m was primarily driven by:

- an increase in asset size of HK\$58,676m mainly due to increases in corporate exposures in mainland China, Hong Kong and India, an increase in bank exposures in Hong Kong and growth in residential mortgage loans in Hong Kong; the increase was partly offset by
- a decrease of HK\$6,812m in methodology and policy arising from management initiatives.

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 31 Dec 2020	1,874,988
2	Asset size	35,399
3	Asset quality	(1,282)
5	Methodology and policy	(1,659)
7	Foreign exchange movements	(7,282)
9	RWAs as at 31 Mar 2021	1,900,164

¹ 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\$25,176m in the first quarter of 2021. Excluding the decrease arising from foreign currency translation differences of HK\$7,282m, the increase of HK\$32,458m was mainly due to:

- an increase in asset size of HK\$35,399m largely driven by growth in corporate loans in mainland China and India, an increase in bank exposures in Hong Kong and growth in residential mortgage loans in Hong Kong.

RWA flow statement for counterparty credit risk

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

		a
		HK\$m
1	RWAs as at 31 Dec 2020	43,310
2	Asset size	(3,590)
3	Credit quality of counterparties	(731)
7	Foreign exchange movements	114
9	RWAs as at 31 Mar 2021	39,103

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 HK\$m	Incremental risk charge (‘IRC’) HK\$m	Other HK\$m	Total RWAs HK\$m
1	RWAs as at 31 Dec 2020	20,969	37,365	34,213	11,598	104,145
2	Movement in risk levels	(444)	(1,334)	202	4,819	3,243
3	Model updates/changes	295	71	–	–	366
6	Foreign exchange movements	55	98	90	31	274
8	RWAs as at 31 Mar 2021	20,875	36,200	34,505	16,448	108,028

Liquidity information

Banking (Liquidity) Rules ('BLR'), and is required to maintain an LCR of not less than 100%.

The group is required to calculate its Liquidity Coverage Ratio ('LCR') on a consolidated basis in accordance with rule 11(1) of the

Table 8: Average liquidity coverage ratio

	Quarter ended
	31 Mar
	2021
	%
Average liquidity coverage ratio	160.7

The liquidity position of the group remained strong in the first quarter of 2021. The average LCR decreased by 11.4 percentage points from 172.1% for the quarter ended 31 December 2020 to 160.7% for the quarter ended 31 March 2021, mainly as a result of

the growth in loans and advances to customers. The majority of high-quality liquid assets ('HQLA') included in the LCR are Level 1 assets as defined in the BLR, which consist mainly of government debt securities.

Table 9: Total weighted amount of high-quality liquid assets

	Weighted amount (average value at quarter ended)
	31 Mar
	2021
	HK\$m
Level 1 assets	1,906,399
Level 2A assets	81,384
Level 2B assets	33,835
Total	2,021,618

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 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 ('ISDA') compliant Credit Support Annex ('CSA') contracts), the additional collateral required to post in the event of a one-notch and two-notch downgrade in credit ratings is not significant.

Information relating to the Bank's approach to liquidity risk management and its interaction with the HSBC Group's Asset, Liability and Capital Management function can be found in the Risk Report of the group's *Annual Report and Accounts 2020*.

Banking Disclosure Statement at 31 March 2021

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

		a	b
		Quarter ended 31 Mar 2021	
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 31 March 2021: 73		Unweighted value (average) HK\$m	Weighted value (average) HK\$m
Basis of disclosure: consolidated			
A	HQLA		
1	Total HQLA		2,021,618
B	Cash outflows		
2	Retail deposits and small business funding, of which:	3,450,240	326,199
3	<i>Stable retail deposits and stable small business funding</i>	265,430	7,718
4	<i>Less stable retail deposits and less stable small business funding</i>	3,184,810	318,481
5	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the AI, of which:	2,791,570	1,287,873
6	<i>Operational deposits</i>	829,717	203,296
7	<i>Unsecured wholesale funding (other than small business funding) not covered in Row 6</i>	1,948,948	1,071,672
8	<i>Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period</i>	12,905	12,905
9	Secured funding transactions (including securities swap transactions)		13,139
10	Additional requirements, of which:	696,229	243,068
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	182,724	182,677
12	<i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	1,214	1,214
13	<i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	512,291	59,177
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	203,982	203,982
15	Other contingent funding obligations (whether contractual or non-contractual)	2,660,146	19,002
16	Total cash outflows		2,093,263
C	Cash inflows		
17	Secured lending transactions (including securities swap transactions)	473,620	91,149
18	Secured and unsecured loans (other than secured lending transactions covered in Row 17) and operational deposits placed at other financial institutions	844,879	519,377
19	Other cash inflows	239,533	223,880
20	Total cash inflows	1,558,032	834,406
D	Liquidity coverage ratio (adjusted value)		
21	Total HQLA		2,021,618
22	Total net cash outflows		1,258,857
23	LCR (%)		160.7

Other information

Abbreviations

The following abbreviated terms are used throughout this document:

Currencies		S	
HK\$m	Millions of Hong Kong dollars	SEC-ERBA	Securitisation external ratings-based approach
HK\$b	Billions (thousands of millions) of Hong Kong dollars	SEC-SA	Securitisation standardised approach
A		SFT	Securities financing transaction
AI	Authorised institution	STC	Standardised (credit risk) approach
B		STM	Standardised (market risk) approach
BCBS	Basel Committee on Banking Supervision	T	
BCR	Banking (Capital) Rules	TLAC	Total loss-absorbing capacity
BDR	Banking (Disclosure) Rules	V	
BLR	Banking (Liquidity) Rules	VaR ¹	Value at risk
C		<i>1 Full definition included in the Glossary published on HSBC website www.hsbc.com</i>	
CCP	Central counterparty		
CCR	Counterparty credit risk		
CCyB	Countercyclical capital buffer		
CEM	Current exposure method		
CET1 ¹	Common equity tier 1		
CSA ¹	Credit Support Annex		
CVA	Credit valuation adjustment		
D			
D-SIB	Domestic systemically important bank		
F			
FIRO	The 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 ¹	Global systemically important bank		
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		
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		
ISDA	International Swaps and Derivatives Association		
L			
LAC	Loss-absorbing capacity		
LAC Rules	Financial Institutions (Resolution) (Loss-absorbing Capacity Requirement – Banking Sector) Rules		
LCR	Liquidity coverage ratio		
LR	Leverage ratio		
N			
NSFR	Net stable funding ratio		
P			
PFE ¹	Potential future exposure		
R			
RWA ¹	Risk-weighted asset/risk-weighted amount		

The Hongkong and Shanghai Banking Corporation Limited

HSBC Main Building
1 Queen's Road Central, Hong Kong
Telephone: (852) 2822 1111
Facsimile: (852) 2810 1112
www.hsbc.com.hk