

The Hongkong and Shanghai Banking Corporation Limited

**Banking Disclosure Statement at 30 June 2020
(Unaudited)**

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Prefixes contained in the table names, where applicable, represent the reference codes of the standard disclosure templates and tables for the Revised Pillar 3 Framework issued by the Hong Kong Monetary Authority ('HKMA').

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'). It should be read in conjunction with the group's *Interim Report 2020*. The group's *Interim Report 2020*, 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 ('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. Information regarding subsidiaries that are not included in the consolidation for regulatory purposes is set out in the 'Basis of consolidation' section in this document.

The information in this document is not audited and does not constitute statutory accounts.

The Banking Disclosure Statement

The group's Banking Disclosure Statement at 30 June 2020 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 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 *Interim Report 2020*. All the group's banking disclosures can be found in the Regulatory Disclosure section of our website, www.hsbc.com.hk.

Loss-absorbing Capacity Disclosures

The group's 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, <https://www.hsbc.com>. The location of HAHO's LAC disclosure can be found in the following table:

Location of HAHO's LAC disclosures in 2020:

- KM2 – Key metrics of the Asian resolution group
 - Table 11.ii of the Group's Pillar 3 Disclosures
- TLAC1 – TLAC composition
 - Table 12 of the Group's Pillar 3 Disclosures
- TLAC3 – HSBC Asia Holdings Limited Creditor Ranking
 - Table 16 of the 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 : <https://www.hsbc.com/investors/fixed-income-investors/regulatory-capital-securities>

The page number of the tables shown above can be found in the "Tables" section on page 1 of the Group's Pillar 3 Disclosures at 30 June 2020.

Table 1: KM1 – Key prudential ratios

		a	b	c	d	e
		At				
		30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Sep 2019	30 Jun 2019
	Footnotes					
Regulatory capital (HK\$m)						
1	Common Equity Tier 1 ('CET1')	491,594	468,406	491,641	482,522	480,610
2	Tier 1	537,507	514,224	537,460	528,254	526,297
3	Total capital	596,815	574,864	598,934	590,912	589,349
Risk-weighted assets ('RWAs') (HK\$m)						
4	Total RWAs	2,942,719	2,905,598	2,851,380	2,905,034	2,897,902
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	16.7	16.1	17.2	16.6	16.6
6	Tier 1 ratio (%)	18.3	17.7	18.8	18.2	18.2
7	Total capital ratio (%)	20.3	19.8	21.0	20.3	20.3
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 (%)	0.52	0.52	1.02	1.26	1.27
10	Higher loss absorbency requirements (%) (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 (%)	5.52	5.52	6.02	6.26	6.27
12	CET1 available after meeting the AI's minimum capital requirements (%)	12.2	11.6	12.7	12.1	12.1
Basel III leverage ratio						
13	Total leverage ratio ('LR') exposure measure (HK\$m)	8,474,009	8,185,571	8,078,204	8,039,868	8,136,588
14	LR (%)	6.3	6.3	6.7	6.6	6.5
Liquidity Coverage Ratio ('LCR')						
15	Total high quality liquid assets ('HQLA') (HK\$m)	1,730,870	1,724,361	1,619,870	1,527,910	1,583,650
16	Total net cash outflows (HK\$m)	1,067,926	1,073,924	990,793	1,021,983	1,074,261
17	LCR (%)	162.0	160.8	163.5	149.7	147.5
Net Stable Funding Ratio ('NSFR')						
18	Total available stable funding (HK\$m)	5,145,116	5,015,769	4,996,772	4,907,163	4,902,835
19	Total required stable funding (HK\$m)	3,421,671	3,502,785	3,427,503	3,452,888	3,379,361
20	NSFR (%)	150.4	143.2	145.8	142.1	145.1

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% at 2Q20 and 1Q20, 2% at 4Q19 and 2.5% for 3Q19 to 2Q19. The reductions were in accordance with the announcements made by the HKMA on 16 March 2020 and 14 October 2019 respectively. The jurisdictional CCyB of other countries ranged from 0% to 1.5% at 2Q20.

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 increased by HK\$22bn from March 2020 to June 2020, mainly as a result of:

- a HK\$10.2bn increase from capital generated through profits, net of dividends paid;
- a HK\$5.4bn favourable currency translation difference;
- a HK\$7.2bn decrease in the regulatory reserve deduction;
- a HK\$1.0bn increase in fair value through other comprehensive income reserve;
- a HK\$0.8bn decrease in the prudent valuation adjustment deduction; offset by
- a HK\$2.2bn decrease in Tier 2 capital from lower property revaluation reserves.

Structure of the regulatory group

Basis of consolidation

The basis of consolidation for financial accounting purposes is in accordance with Hong Kong Financial Reporting Standards ('HKFRS'), as described in Note 1 on the financial statements in the group's *Annual Report and Accounts 2019*.

The basis of consolidation for regulatory purposes is different from that for accounting purposes. Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C(1) of the Banking (Capital) Rules ('BCR'). Subsidiaries not included in consolidation for regulatory purposes are securities and insurance companies that are authorised and supervised by regulators, and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the BCR and the Banking Ordinance. The capital invested by the group in these subsidiaries is deducted from the capital base, subject to certain thresholds, as determined in accordance with Part 3 of the BCR.

For insurance entities, the present value of in-force long-term insurance business asset of HK\$65,510m and the related deferred

tax liability are only recognised on consolidation in financial reporting and are therefore not included in the asset or equity positions for the stand-alone entities presented in the below table.

There are no subsidiaries that are included within both the accounting scope of consolidation and the regulatory scope of consolidation, but where the method of consolidation differs at 30 June 2020.

There are no subsidiaries that are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation at 30 June 2020.

The group operates subsidiaries in a number of countries and territories where capital is governed by local rules, and there may be restrictions on the transfer of regulatory capital and funds between members of the banking group.

The Bank and its banking subsidiaries maintain regulatory reserves to satisfy the provisions of the Banking Ordinance and local regulatory requirements for prudential supervision purposes. At 30 June 2020, the effect of this requirement is to reduce the amount of reserves which can be distributed to shareholders by HK\$16,156m.

Table 2: List of subsidiaries outside the regulatory scope of consolidation

	Principal activities	At 30 Jun 2020	
		Total assets HK\$m	Total equity HK\$m
HSBC Broking Futures (Hong Kong) Ltd	Futures broking	5,083	613
HSBC Broking Services (Asia) Ltd and its subsidiaries	Broking services	14,525	2,733
HSBC Corporate Advisory (Malaysia) Sdn Bhd	Financial services	5	4
HSBC Corporate Finance (Hong Kong) Ltd	Financial services	14	12
HSBC Global Asset Management Holdings (Bahamas) Ltd	Asset management	129	128
HSBC Global Asset Management (Hong Kong) Ltd	Asset management	822	569
HSBC Global Asset Management (Japan) K.K.	Asset management	211	127
HSBC Global Asset Management (Singapore) Ltd	Asset management	78	41
HSBC Insurance (Asia-Pacific) Holdings Ltd and its subsidiaries	Insurance	502,590	28,951
HSBC InvestDirect (India) Ltd and its subsidiaries	Financial services	750	661
HSBC Investment Funds (Hong Kong) Ltd	Asset management	545	277
HSBC Qianhai Securities Ltd	Securities services	1,655	1,374
HSBC Securities (Asia) Ltd and its subsidiary	Broking services	26	26
HSBC Securities (Japan) Ltd	Broking services	175,213	1,036
HSBC Securities (Singapore) Pte Ltd	Broking services	684	78
HSBC Securities Brokers (Asia) Ltd	Broking services	7,030	3,773
Hang Seng Insurance Co. Ltd and its subsidiaries	Insurance	157,572	11,305
Hang Seng Investment Management Ltd	Asset management	1,137	811
Hang Seng Investment Services Ltd	Investment services	9	9
Hang Seng Qianhai Fund Management Co. Ltd	Asset management	331	321
Hang Seng Securities Ltd	Broking services	4,100	836

The approaches used in calculating the group's regulatory capital and RWAs are in accordance with the 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.

Balance sheet reconciliation

The following table expands the balance sheet under the regulatory scope of consolidation to show separately the

capital components that are reported in the 'Composition of regulatory capital disclosures' template in Table 4. The capital components in this table contain a reference that shows how these amounts are included in Table 4.

Table 3: CC2 – Reconciliation of regulatory capital to balance sheet

	a	b	c
	At 30 Jun 2020		
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Cross-referenced to definition of Capital Components
	HK\$m	HK\$m	
Assets			
Cash and sight balances at central banks	214,250	213,650	
Items in the course of collection from other banks	35,137	35,137	
Hong Kong Government certificates of indebtedness	306,284	306,284	
Trading assets	516,308	515,718	
<i>of which: significant Loss-absorbing capacity ('LAC') investments eligible as Additional Tier1 ('AT1') capital issued by financial sector entities</i>		29	1
<i>of which: significant LAC investments eligible as Tier 2 capital issued by financial sector entities</i>		1	2
Derivatives	374,251	373,513	
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	140,898	5,919	
Reverse repurchase agreements – non-trading	491,343	323,897	
Loans and advances to banks	401,822	388,650	
Loans and advances to customers	3,679,364	3,665,536	
<i>of which: impairment allowances eligible for inclusion in Tier 2 capital</i>		(7,321)	3
Financial investments	2,090,518	1,661,832	
Amounts due from Group companies	148,670	308,479	
<i>of which: significant LAC investments eligible as Tier 2 capital issued by financial sector entities</i>		7,598	4
Investments in subsidiaries	–	16,009	
Interests in associates and joint ventures	156,009	152,830	
<i>of which: goodwill</i>		3,612	5
<i>of which: significant LAC investments in financial sector entities exceeding 10% threshold</i>		109,767	6
Goodwill and intangible assets	87,308	19,240	
<i>of which: goodwill</i>		4,778	7
<i>of which: intangible assets</i>		14,462	8
Property, plant and equipment	130,254	123,568	
Deferred tax assets	3,175	2,978	
<i>of which: deferred tax assets net of related tax liabilities</i>		3,085	9
<i>of which: deferred tax liabilities related to goodwill</i>		(90)	10
<i>of which: deferred tax liabilities related to intangible assets</i>		(17)	11
Prepayments, accrued income and other assets	321,747	233,683	
<i>of which: defined benefit pension fund net assets</i>		28	12
Total assets	9,097,338	8,346,923	

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Table 3: CC2 – Reconciliation of regulatory capital to balance sheet (continued)

	a	b	c
	At 30 Jun 2020		
	Balance sheet in published financial statements	Under regulatory scope of consolidation	Cross-referenced to definition of Capital Components
	HK\$m	HK\$m	
Liabilities			
Hong Kong currency notes in circulation	306,284	306,284	
Items in the course of transmission to other banks	40,959	40,959	
Repurchase agreements – non-trading	111,322	111,322	
Deposits by banks	233,635	233,635	
Customer accounts	5,604,067	5,601,567	
Trading liabilities	74,985	74,985	
Derivatives	360,616	360,813	
<i>of which: gains and losses due to changes in own credit risk on fair valued liabilities</i>		(497)	13
Financial liabilities designated at fair value	159,381	121,411	
<i>of which: gains and losses due to changes in own credit risk on fair valued liabilities</i>		(101)	14
Debt securities in issue	102,972	102,896	
Retirement benefit liabilities	3,635	3,635	
Amounts due to Group companies	333,467	325,892	
<i>of which: qualifying Tier 2 capital instruments</i>		15,121	15
<i>of which: gains and losses due to changes in own credit risk on fair valued liabilities</i>		(1,147)	16
Accruals and deferred income, other liabilities and provisions	301,648	249,006	
Liabilities under insurance contracts	546,529	–	
Current tax liabilities	5,523	5,212	
Deferred tax liabilities	31,844	20,514	
<i>of which: deferred tax liabilities related to goodwill</i>		4	17
<i>of which: deferred tax liabilities related to intangible assets</i>		2,263	18
<i>of which: deferred tax liabilities related to defined benefit pension fund net assets</i>		2	19
Subordinated liabilities	4,004	4,004	
<i>of which: portion eligible for Tier 2 capital instruments, subject to phase-out arrangements</i>		3,100	20
Total liabilities	8,220,871	7,562,135	
Equity			
Share capital	172,335	172,335	
<i>of which: portion eligible for inclusion in CET1 capital</i>		170,881	21
<i>of which: revaluation reserve capitalisation issue</i>		1,454	22
Other equity instruments	44,615	44,615	
<i>of which: qualifying AT1 capital instruments</i>		44,615	23
Other reserves	122,093	121,442	24
<i>of which: fair value gains arising from revaluation of land and buildings</i>		64,666	25
<i>of which: cash flow hedging reserves</i>		33	26
<i>of which: valuation adjustment</i>		48	27
Retained earnings	473,964	393,293	28
<i>of which: regulatory reserve for general banking risks</i>		16,156	29
<i>of which: regulatory reserve eligible for inclusion in Tier 2 capital</i>		9,007	30
<i>of which: fair value gains arising from revaluation of land and buildings</i>		4,231	31
<i>of which: valuation adjustment</i>		1,488	32
Total shareholders' equity	813,007	731,685	
Non-controlling interests	63,460	53,103	
<i>of which: portion allowable in CET1 capital</i>		27,701	33
<i>of which: portion allowable in AT1 capital</i>		1,327	34
<i>of which: portion allowable in Tier 2 capital</i>		700	35
Total equity	876,467	784,788	
Total liabilities and equity	9,097,338	8,346,923	

Capital and RWAs

Regulatory capital disclosures

The following table sets out the detailed composition of the group's regulatory capital using the 'Composition of regulatory capital disclosures' template, as specified by the HKMA.

Table 4: CC1 – Composition of regulatory capital

	a	b
	At 30 Jun 2020	
	Component of regulatory capital	Cross-referenced to Table 3
	HK\$m	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
CET1 capital: instruments and reserves		
1	170,881	21
2	393,293	28
3	121,442	24
5	27,701	33
6	713,317	
CET1 capital: regulatory deductions		
7	1,536	27+32
8	8,296	5+7+10-17
9	12,182	8+11-18
10	3,085	9
11	33	26
14	1,745	-(13+14+16)
15	26	12-19
19	109,767	6
26	85,053	
26a	68,897	25+31
26b	16,156	29
28	221,723	
29	491,594	
AT1 capital: instruments		
30	44,615	23
31	44,615	23
34	1,327	34
36	45,942	
40	29	1
43	29	
44	45,913	
45	537,507	
Tier 2 capital: instruments and provisions		
46	15,121	15
47	3,100	20
48	700	35
50	16,328	30-3
51	35,249	
Tier 2 capital: regulatory deductions		
55	7,599	2+4
56	(31,658)	
56a	(31,658)	(22+25+31)×45%
57	(24,059)	
58	59,308	
59	596,815	
60	2,942,719	

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Table 4: CC1 – Composition of regulatory capital (continued)

		a	b
		At 30 Jun 2020	
		Component of regulatory capital	Cross-referenced to Table 3
		HK\$m	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
Capital ratios (as a percentage of RWA)			
61	CET1 capital ratio	16.7%	
62	Tier 1 capital ratio	18.3%	
63	Total capital ratio	20.3%	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	5.52%	
65	<i>of which: capital conservation buffer requirement</i>	2.50%	
66	<i>of which: bank specific countercyclical capital buffer requirement</i>	0.52%	
67	<i>of which: higher loss absorbency requirement</i>	2.50%	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	12.2%	
Amounts below the thresholds for deduction (before risk weighting)			
72	Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation	20,009	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	60,136	
Applicable caps on the inclusion of provisions in Tier 2 capital			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	2,880	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	2,963	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	15,534	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	13,448	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
84	Current cap on Tier 2 capital instruments subject to phase-out arrangements	9,115	

Table 4: CC1 – Composition of regulatory capital (continued)

Notes to the template:

		At 30 Jun 2020	
		Hong Kong basis	Basel III basis
		HK\$m	HK\$m
10	Deferred tax assets (net of associated deferred tax liabilities)	3,085	473

Explanation:

As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), Deferred Tax Assets ('DTAs') of the bank to be realised are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an authorised institution ('AI') is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III.

The amount reported under the column 'Basel III basis' in this box represents the amount reported in row 10 (i.e. the amount reported under the 'Hong Kong basis') adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for Mortgage Servicing Rights ('MSRs'), DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.

		At 30 Jun 2020	
		Hong Kong basis	Basel III basis
		HK\$m	HK\$m
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	109,767	107,915

Explanation:

For the purpose of determining the total amount of significant LAC investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the Monetary Authority that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business.

Therefore, the amount to be deducted as reported in row 19 may be greater than that required under Basel III. The amount reported

under the column 'Basel III basis' in this box represents the amount reported in row 19 (i.e. the amount reported under the 'Hong Kong basis') adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.

Remarks:

The amount of the 10% threshold is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.

Table 5: CCA – Capital instruments

		At 30 Jun 2020	
		Total amount	Amount recognised in regulatory capital
			HK\$m
CET1 capital instruments			
	Ordinary shares	HK\$172,335m	170,880
AT1 capital instruments			
	Fixed rate perpetual subordinated loans, callable from 2024	US\$1,100m	8,617
	Fixed rate perpetual subordinated loans, callable from 2024	US\$900m	7,044
	Fixed rate perpetual subordinated loans, callable from 2025	US\$1,000m	7,834
	Fixed rate perpetual subordinated loans, callable from 2025	US\$700m	5,467
	Fixed rate perpetual subordinated loans, callable from 2025	US\$500m	3,905
	Fixed rate perpetual subordinated loans, callable from 2026	US\$900m	7,064
	Fixed rate perpetual subordinated loans, callable from 2027	US\$600m	4,686
Tier 2 capital instruments			
	Primary capital undated floating rate notes	US\$400m	3,100
	Subordinated loan due 2030, callable from 2025	US\$1,000m	8,435
	Subordinated loan due 2030, callable from 2025	US\$180m	1,534
	Subordinated loan due 2031, callable from 2026	US\$600m	5,152

A description of the main features and the full terms and conditions of the group's capital instruments can be found in the Regulatory Disclosures section of our website, www.hsbc.com.hk.

Countercyclical capital buffer ratio

The countercyclical capital buffer ('CCyB') is calculated as the weighted average of the applicable CCyB ratios in effect in the jurisdictions in which banks have private sector credit exposures.

The group uses country of business as the basis of geographical allocation for the majority of its credit risk and risk country for market risk, which is defined by considering the country of incorporation, location of guarantor, headquarter domicile, distribution of revenue and booking country.

Table 6: CCyB1 – Geographical distribution of credit exposures used in countercyclical capital buffer

		a	c	d	e
		At 30 Jun 2020			
Geographical breakdown by Jurisdiction (J)	Footnotes	Applicable JCCyB ratio in effect	RWAs used in computation of CCyB ratio	AI-specific CCyB ratio	CCyB amount
		%	HK\$m	%	HK\$m
1	Hong Kong SAR	1	1.00	1,109,937	
2	Bulgaria		0.50	2	
3	Czech Republic		1.00	1	
4	Luxembourg		0.25	4,844	
5	Norway		1.00	96	
6	Slovakia		1.50	1	
	Sum	2		1,114,881	
	Total	3		2,156,872	0.52
					15,161

1 At 2Q20, the JCCyB of Hong Kong used in the calculation of the CCyB buffer requirement was 1.0%, which was reduced from 2.0% at 4Q19 in accordance with the announcement made by the HKMA on 16 March 2020. The JCCyB of other countries used in the calculation of the CCyB requirement ranged from 0% to 1.5%.

2 This represents the sum of RWAs for the private sector credit exposures in jurisdictions with a non-zero countercyclical buffer rate.

3 The total RWAs used in the computation of the CCyB ratio in column (c) represents the total RWAs for the private sector credit exposures in all jurisdictions to which the group is exposed, including jurisdictions with no countercyclical buffer rate or with a countercyclical buffer rate set at zero. The CCyB amount in column (e) represents the group's total RWAs multiplied by the group specific CCyB ratio in column (d).

The CCyB ratio decreased from 1.02% at 31 December 2019 to 0.52% at 30 June 2020 mainly due to the decrease in Hong Kong's Jurisdictional countercyclical capital buffer ('JCCyB') ratio from 2% to 1% in accordance with the announcement made by the HKMA on 16 March 2020.

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 7: LR2 – Leverage ratio

	a	b
	30 Jun 2020 HK\$m	31 Mar 2020 HK\$m
On-balance sheet exposures		
1	7,042,556	6,845,064
2	(221,462)	(232,059)
3	6,821,094	6,613,005
Exposures arising from derivative contracts		
4	61,043	77,338
5	317,850	327,251
8	(4,909)	(4,631)
9	383,823	358,106
10	(372,127)	(345,275)
11	385,680	412,789
Exposures arising from SFTs		
12	646,182	578,353
14	49,793	39,978
16	695,975	618,331
Other off-balance sheet exposures		
17	3,197,982	3,065,610
18	(2,597,588)	(2,499,858)
19	600,394	565,752
Capital and total exposures		
20	537,507	514,224
20a	8,503,143	8,209,877
20b	(29,134)	(24,306)
21	8,474,009	8,185,571
Leverage ratio		
22	6.3%	6.3%

The increase in total leverage exposure measures by HK\$288,438m is mainly attributed to increase in treasury bills, debt securities and reverse repo trades.

Table 8: LR1 – Summary comparison of accounting assets against leverage ratio exposure measure

Item	a
	Value under the LR framework 30 Jun 2020 HK\$m
1	9,097,338
2	(711,690)
4	12,167
5	49,793
6	600,394
6a	(2,062)
7	(571,931)
8	8,474,009

Other adjustments mainly represent the Hong Kong Government certificates of indebtedness and assets deducted in determining Tier 1 capital.

These are excluded for deriving the leverage ratio exposure measure in accordance with the HKMA requirements specified in Part 1C of the BCR.

Overview of RWAs and the minimum capital requirements
Table 9: OV1 – Overview of RWAs

	a	b	c
	RWAs ¹	RWAs ¹	Minimum ² capital requirements
	30 Jun 2020 HK\$m	31 Mar 2020 HK\$m	30 Jun 2020 HK\$m
1 Credit risk for non-securitisation exposures	2,096,990	2,070,699	176,771
2 <i>of which: standardised credit risk ('STC') approach</i>	219,492	221,476	17,559
4 <i>of which: supervisory slotting criteria approach</i>	69,248	66,522	5,872
5 <i>of which: advanced internal ratings-based ('IRB') approach</i>	1,808,250	1,782,701	153,340
6 Counterparty default risk and default fund contributions	67,275	74,103	5,672
7a <i>of which: current exposure method ('CEM')</i>	14,083	17,570	1,187
8 <i>of which: internal models (counterparty credit risk) ('IMM(CCR)') approach</i>	35,853	39,256	3,026
9 <i>of which: Others</i>	17,339	17,277	1,459
10 Credit valuation adjustment ('CVA') Risk	28,884	24,357	2,311
11 Equity positions in banking book under the simple risk-weight method and the internal models method	27,123	24,906	2,300
15 Settlement risk	19	512	2
16 Securitisation exposures in banking book	12,169	12,739	973
18 <i>of which: securitisation external ratings-based approach ('SEC-ERBA') including internal assessment approach ('IAA')</i>	9,777	10,151	782
19 <i>of which: securitisation standardised approach ('SEC-SA')</i>	2,392	2,588	191
20 Market risk	104,955	105,816	8,399
21 <i>of which: standardised market risk ('STM') approach</i>	2,202	2,486	179
22 <i>of which: internal models ('IMM') approach</i>	102,753	103,330	8,220
24 Operational risk	366,697	364,820	29,336
25 Amounts below the thresholds for deduction (subject to 250% RW)	150,340	144,396	12,749
26a Deduction to RWAs	38,693	41,823	3,095
26b <i>of which: portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital</i>	–	458	–
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>	38,693	41,365	3,095
27 Total	2,815,759	2,780,525	235,418

1 RWAs in this table are presented 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\$26,291m in the second quarter of 2020, including an increase of HK\$16,975m from foreign currency translation differences. Excluding the foreign currency translation differences, the increase of HK\$9,316m was primarily driven by:

- an increase of HK\$30,286m from asset quality due to unfavourable credit rating movements in the corporate portfolios;
- an increase of HK\$11,619m due to model updates mainly in the corporate portfolios; partly offset by
- a decrease of HK\$26,589m from lower corporate loan balances mainly in Hong Kong, mainland China and Singapore; and
- a decrease of HK\$4,860m in methodology and policy from RWA saving initiatives.

RWA flow statements

RWA flow statement for credit risk

Table 10: CR8 – RWA flow statement of credit risk exposures under IRB approach¹

	a
	HK\$m
1 RWAs as at 31 Mar 2020	1,849,223
2 Asset size	(23,574)
3 Asset quality	30,286
4 Model updates	11,619
5 Methodology and policy	(4,860)
7 Foreign exchange movements	14,804
9 RWAs as at 30 Jun 2020	1,877,498

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

RWAs under IRB approach increased by HK\$28,275m in the second quarter of 2020, including an increase in foreign currency translation differences of HK\$14,804m. Excluding the foreign currency translation differences, the increase of HK\$13,471m was mainly due to:

- an increase of HK\$30,286m from asset quality arising from unfavourable credit rating movements in the corporate portfolios;
- an increase of HK\$11,619m from model updates mainly in the corporate portfolios; partly offset by
- a decrease in asset size of HK\$23,574m mainly due to lower corporate loan balances in Hong Kong, mainland China and Singapore; and
- a decrease of HK\$4,860m in methodology and policy from RWA saving initiatives.

RWA flow statement for counterparty credit risk

Table 11: CCR7 – RWA flow statement of default risk exposures under IMM(CCR) approach

	a
	HK\$m
1 RWAs as at 31 Mar 2020	39,256
2 Asset size	(4,297)
3 Credit quality of counterparties	904
7 Foreign exchange movements	(10)
9 RWAs as at 30 Jun 2020	35,853

RWA flow statement for market risk

Table 12: MR2 – RWA flow statement of market risk exposures under IMM approach

	a	b	c	e	f
	VaR HK\$m	Stressed VaR HK\$m	IRC HK\$m	Other HK\$m	Total RWAs HK\$m
1 RWAs as at 31 Mar 2020	21,334	22,147	39,166	20,683	103,330
2 Movement in risk levels	5,837	4,108	(5,474)	(5,013)	(542)
3 Model updates/changes	13	(22)	–	–	(9)
4 Methodology and policy	–	–	–	–	–
6 Foreign exchange movements	(5)	(6)	(10)	(5)	(26)
8 RWAs as at 30 Jun 2020	27,179	26,227	33,682	15,665	102,753

Loss-absorbing Capacity

Table 13: KM2(A) – Key metrics – LAC requirements

	a	b	c	d	e	
	At ¹					
Footnotes	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Sep 2019	30 Jun 2019	
Of the group at LAC consolidation group level						
1	Internal loss-absorbing capacity available (HK\$m)	773,180	744,305	769,124	762,295	N/A
2	Risk-weighted amount under the LAC Rules (HK\$m)	2,942,719	2,905,598	2,851,380	2,905,034	N/A
3	Internal LAC risk-weighted ratio (%)	26.3	25.6	27.0	26.2	N/A
4	Exposure measure under the LAC Rules (HK\$m)	8,466,242	8,178,584	8,071,283	8,033,779	N/A
5	Internal LAC leverage ratio (%)	9.1	9.1	9.5	9.5	N/A
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?	2	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?	2	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 (%)	2	Not applicable	Not applicable	Not applicable	Not applicable

1 The LAC disclosures for the group commenced on 30 September 2019 in accordance with the LAC Rules, accordingly the prior periods' ratios are not available.

2 The subordination exemption 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 available increased by HK\$28.9bn from March 2020 to June 2020 largely from an increase in regulatory capital of HK\$22bn, and an increase in fair value of LAC instruments of HK\$7bn.

Table 14: TLAC1(A) – TLAC composition

	a	
	At 30 Jun 2020	
Regulatory capital elements of internal loss-absorbing capacity and adjustments (HK\$m)		
1	Common Equity Tier 1 ('CET1') capital	491,594
2	Additional tier 1 ('AT1') capital before LAC adjustments	45,913
5	AT1 capital eligible under the LAC Rules	45,913
6	Tier 2 ('T2') capital before LAC adjustments	59,308
8	T2 capital instruments ineligible as internal loss-absorbing capacity as not issued directly or indirectly to, and held directly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group	3,100
10	T2 capital eligible under the LAC Rules	56,208
11	Internal loss-absorbing capacity arising from regulatory capital	593,715
Non-regulatory capital elements of internal loss-absorbing capacity (HK\$m)		
12	Internal non-capital LAC debt instruments issued directly or indirectly to, and held indirectly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group	179,633
17	Internal loss-absorbing capacity arising from non-capital LAC debt instruments before adjustments	179,633
Non-regulatory capital elements of internal loss-absorbing capacity: adjustments (HK\$m)		
18	Internal loss-absorbing capacity before deductions	773,348
19	Deductions of exposures between the material subsidiary's LAC consolidation group and group companies outside that group that correspond to non-capital items eligible for internal loss-absorbing capacity	168
22	Internal loss-absorbing capacity after deductions	773,180
Risk-weighted amount and exposure measure under the LAC Rules for internal loss-absorbing capacity purposes (HK\$m)		
23	Risk-weighted amount under the LAC Rules	2,942,719
24	Exposure measure under the LAC Rules	8,466,242
Internal LAC ratios and buffers (%)		
25	Internal LAC risk-weighted ratio	26.3%
26	Internal LAC leverage ratio	9.1%
27	CET1 capital (as a percentage of RWA under the BCR) available after meeting the LAC consolidation group's minimum capital and LAC requirements	10.3%
28	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer requirements plus higher loss absorbency requirement, expressed as a percentage of RWA under the BCR)	5.52%
29	Of which: capital conservation buffer requirement	2.50%
30	Of which: institution-specific countercyclical capital buffer requirement	0.52%
31	Of which: higher loss absorbency requirement	2.50%

Table 15: TLAC2 – The Hongkong and Shanghai Banking Corporation Limited creditor ranking

	Creditor ranking (HK\$m)					Sum of 1 to 5	
	1 (most junior)	2	3	4	5 (most senior)		
1	Is the resolution entity or a non-HK resolution entity the creditor/investor? (yes or no)	Yes	Yes	No ¹	Yes	Yes	
2	Description of creditor ranking	Ordinary shares ²	AT1 instruments	Primary capital notes	Tier 2 instruments	LAC loans	
3	Total capital and liabilities net of credit risk mitigation	172,335	44,177	3,100	13,796	164,095	397,503
5	Total capital and liabilities less excluded liabilities	172,335	44,177	3,100	13,796	164,095	397,503
6	– of row 5 that are eligible as internal loss-absorbing capacity	172,335	44,177	–	13,796	164,095	394,403
7	– of row 6 with 1 year ≤ residual maturity < 2 years	–	–	–	–	19,376	19,376
8	– of row 6 with 2 years ≤ residual maturity < 5 years	–	–	–	–	56,721	56,721
9	– of row 6 with 5 years ≤ residual maturity < 10 years	–	–	–	–	72,497	72,497
10	– of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities	–	–	–	13,796	15,501	29,297
11	– of row 6 that are perpetual securities	172,335	44,177	–	–	–	216,512

¹ The company's primary capital notes are held by third parties.

² Excludes the value of share premium and reserves attributable to ordinary shareholders.

Credit risk

Credit quality of assets

Credit quality of exposures

Tables 16 and 17 analyse credit exposures between defaulted and

non-defaulted, changes in defaulted loans and debt securities on a regulatory consolidation basis.

The loans covered in these two tables are generally referred to as any on-balance sheet exposures included as credit risk for non-securitisation exposures, covering exposures to customers, banks, sovereigns and others. Cash items and non-financial assets are excluded.

Table 16: CR1 – Credit quality of exposures

		a		b		c		d		e		f		g	
		Gross carrying amounts of				Of which ECL accounting provisions ¹ for credit losses on STC approach exposures				Of which ECL accounting provisions for credit losses on IRB approach exposures				Net values (a+b-c)	
		Defaulted exposures	Non-defaulted exposures	Allowances/ impairments		Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions								
		HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	
1	Loans	29,728	4,374,710	27,623	2,041	1,090			24,492	4,376,815					
2	Debt securities	–	1,632,497	312	–	28			284	1,632,185					
3	Off-balance sheet exposures	3,399	3,194,583	1,769	6	107			1,656	3,196,213					
4	Total at 30 Jun 2020	33,127	9,201,790	29,704	2,047	1,225			26,432	9,205,213					

1 The categorisation of Expected Credit Loss ('ECL') accounting provisions into the regulatory categories of specific and collective provisions follows the treatment specified in the completion instructions of the HKMA Capital Adequacy Ratio – MA(BS)3 return. According to the completion instructions, the ECL accounting provisions classified into Stage 1 and Stage 2 are treated as collective provisions, while those classified under Stage 3 are treated as specific provisions. Provisions made for purchased or originated credit-impaired financial assets, under which any changes in lifetime expected credit losses will be recognised in the profit or loss account as an impairment gain or loss, are treated as specific provisions.

Table 17: CR2 – Changes in defaulted loans and debt securities

		a	
		Footnotes	HK\$m
1	Defaulted loans and debt securities at 31 Dec 2019		20,547
2	Loans and debt securities that have defaulted since 31 Dec 2019		15,813
3	Returned to non-defaulted status		(1,419)
4	Amounts written off		(2,602)
5	Other changes	1	(2,611)
6	Defaulted loans and debt securities at 30 Jun 2020		29,728

1 Other changes include repayment and foreign exchange movements.

Tables 18 and 19 analyse credit-impaired exposures and impairment allowances on a regulatory consolidation basis. For customer loans and advances, where the industry sector comprises not less than 10% of the group's total gross loans and

advances to customers, the analysis of gross impaired loans and advances and allowances by major industry sectors based on categories and definitions used by the HSBC Group is as follows:

Table 18: Credit-impaired exposures and impairment allowances by industry

	Footnotes	Total gross loans and advances to customers	Gross credit-impaired loans and advances	Specific provisions ¹	Collective provisions ¹
		HK\$m	HK\$m	HK\$m	HK\$m
At 30 Jun 2020					
Residential mortgages		1,039,368	2,847	(254)	(236)
Real Estate		647,374	203	(19)	(1,158)
Wholesale and retail trade		399,896	11,511	(8,831)	(1,344)
Manufacturing		403,277	4,181	(2,341)	(1,754)
Others	2	1,202,551	8,469	(3,601)	(7,393)
Total		3,692,466	27,211	(15,046)	(11,885)

1 The classification of specific and collective provisions follows the treatment specified in the completion instructions of the HKMA Capital Adequacy Ratio – MA(BS)3 return. Details can be found in footnote 1 under table 16 of this document.

2 Any segment which constitutes less than 10% of total gross loans and advances to customers is disclosed on an aggregated basis under the category 'others'.

The geographical information shown below has been classified by the location of the principal operations of the subsidiary and by the location of the branch responsible for advancing the funds.

Table 19: Credit-impaired exposures and impairment allowances by geographical location

	Footnotes	Total gross loans and advances to customers	Gross credit-impaired loans and advances	Overdue loans and advances	Specific provisions ¹	Collective provisions ¹
		HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
At 30 Jun 2020						
Hong Kong		2,390,601	8,870	9,609	(4,496)	(6,136)
Mainland China		338,497	1,218	1,946	(910)	(1,698)
Others	2	963,368	17,123	15,388	(9,640)	(4,051)
Total		3,692,466	27,211	26,943	(15,046)	(11,885)

1 The classification of specific and collective provisions follows the treatment specified in the completion instructions of the HKMA Capital Adequacy Ratio – MA(BS)3 return. Details can be found in footnote 1 under table 16 of this document.

2 Any geographical location other than Mainland China which constitutes less than 10% of total gross loans and advances to customers is disclosed on an aggregated basis under the category 'others'.

Loans and advances to customers

Tables 20 to 22 analyse loans and advances to customers by geographical locations, by industries and by which are overdue and rescheduled on an accounting consolidation basis. The accounting consolidation basis is different from the regulatory

consolidation basis as explained in the 'Basis of consolidation' section of this document.

The following analysis of loans and advances to customers by geographical areas is in accordance with the location of counterparties, after recognised risk transfer.

Table 20: Loans and advances to customers by geographical location

	Hong Kong	Rest of Asia-Pacific	Other	Total
	HK\$m	HK\$m	HK\$m	HK\$m
At 30 Jun 2020				
Gross loans and advances to customers	1,979,097	1,433,067	294,190	3,706,354

Tables 21 and 22 analyse the group's loans and advances to customers based on the categories used by the HKMA in the

'Quarterly Analysis of Loans and Advances and Provisions – (MA(BS)2A)' return.

Table 21: Loans and advances to customers by industry

	Gross Advances at	Collateral and other security at
	30 Jun 2020	30 Jun 2020
	HK\$m	HK\$m
Industrial, commercial and financial	1,090,704	502,274
– property development	182,923	55,937
– property investment	309,461	205,205
– financial concerns	128,688	78,234
– stockbrokers	9,979	1,514
– wholesale and retail trade	106,597	27,672
– manufacturing	62,354	12,387
– transport and transport equipment	60,115	30,465
– recreational activities	1,946	483
– information technology	38,559	2,840
– others	190,082	87,537
Individuals	834,797	741,645
– advances for the purchase of flats under the Hong Kong Government's Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	55,582	55,582
– advances for the purchase of other residential properties	614,048	614,048
– credit card advances	55,737	–
– others	109,430	72,015
Gross loans and advances to customers for use in Hong Kong	1,925,501	1,243,919
Trade Finance	132,956	32,434
Gross loans and advances to customers for use outside Hong Kong	1,647,897	633,541
Gross loans and advances to customers	3,706,354	1,909,894

The categories of advances, and the relevant definitions, used by the HKMA differ from those used for internal purposes by the HSBC Group as disclosed in Note 3 in the group's *Interim Report 2020*.

Collateral includes any tangible security that has a determinable fair market value and is readily marketable. This includes (but is

not limited to) cash and deposits, stocks and bonds, mortgages over properties and charges over other fixed assets, such as plant and equipment. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance has been included.

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Table 22: Overdue and rescheduled loans and advances to customers

	Footnotes	Hong Kong		Rest of Asia-Pacific		Total	
		HK\$m	% ¹	HK\$m	% ¹	HK\$m	% ¹
At 30 Jun 2020							
Gross amounts which have been overdue with respect to either principal or interest for:							
– more than three months but not more than six months		788	–	1,776	0.1	2,564	0.1
– more than six months but not more than one year		1,241	–	1,315	0.1	2,556	–
– more than one year		3,718	0.2	3,660	0.3	7,378	0.2
Total		5,747	0.2	6,751	0.5	12,498	0.3
Specific provisions made in respect of amounts overdue	2	(2,359)		(3,921)		(6,280)	
Fair value of collateral held in respect of amounts overdue		1,452		2,557		4,009	
Rescheduled loans and advances to customers		375	–	1,943	0.1	2,318	0.1

1 Percentages shown are of gross loans and advances to customers.

2 The classification of specific provisions follows the treatment specified in the completion instructions of the HKMA Capital Adequacy Ratio – MA(BS)3 return. Details can be found in footnote 1 under table 16 of this document.

Rescheduled loans and advances to customers are those loans and advances that have been restructured or renegotiated because of deterioration in the financial position of the borrower, or because of the inability of the borrower to meet the original repayment schedule. Rescheduled loans and advances to customers are stated net of any loans and advances that have subsequently become overdue for more than three months and which are included in overdue loans and advances to customers.

Off-balance sheet exposures other than derivative transactions

The following table gives the nominal contract amounts and risk-

weighted amounts of contingent liabilities and commitments. The information is consistent with that in the 'Capital Adequacy Ratio' return submitted to the HKMA by the group. The return is prepared on a consolidated basis as specified by the HKMA under the requirements of section 3C(1) of the BCR.

For accounting purposes, acceptances and endorsements are recognised on the balance sheet in 'Other assets'. For the purpose of the BCR, acceptances and endorsements are included in the capital adequacy calculation as if they were contingencies.

Table 23: Off-balance sheet exposures other than derivative transactions

	30 Jun 2020 HK\$m
Contract amounts	
Direct credit substitutes	45,613
Transaction-related contingencies	230,305
Trade-related contingencies	91,886
Forward asset purchases	6,025
Commitments that are unconditionally cancellable without prior notice	2,445,185
Commitments which have an original maturity of not more than one year	62,589
Commitments which have an original maturity of more than one year	316,379
Total	3,197,982
Risk-weighted amounts	307,247

Credit risk under internal ratings-based approach

Table 24.1: CR6 – Credit risk exposures by portfolio and PD range – for IRB approach (Wholesale)

	a	b	c	d	e	f	g	h	i	j	k	l
	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	Average CCF	EAD post-CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Provisions
PD scale	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
Portfolio (i) – Sovereign												
0.00 to < 0.15	1,766,549	2,223	31.6	1,767,252	0.02	621	35.5	1.41	97,580	6	125	
0.15 to < 0.25	10,888	–	–	10,888	0.22	12	45.0	1.90	4,405	40	11	
0.25 to < 0.50	5,344	34	50.0	5,361	0.37	22	45.0	1.01	2,367	44	9	
0.50 to < 0.75	17,781	1,358	82.0	18,894	0.63	19	45.0	1.29	11,793	62	54	
0.75 to < 2.50	7,320	992	30.0	7,617	1.10	15	43.5	1.86	6,259	82	36	
2.50 to < 10.00	217	–	–	217	4.20	3	45.0	2.33	302	140	4	
10.00 to < 100.00	–	–	–	–	–	–	–	–	–	–	–	
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	
Sub-total at 30 Jun 2020	1,808,099	4,607	46.2	1,810,229	0.03	692	35.7	1.41	122,706	7	239	1,757
Portfolio (ii) – Bank												
0.00 to < 0.15	461,872	45,284	39.6	479,799	0.05	13,680	38.9	1.20	60,144	13	84	
0.15 to < 0.25	20,315	9,885	44.7	24,735	0.22	1,200	43.1	0.97	9,414	38	23	
0.25 to < 0.50	11,733	2,360	36.5	12,593	0.37	365	24.6	0.80	3,499	28	11	
0.50 to < 0.75	5,854	1,223	29.9	6,220	0.63	330	45.5	0.80	4,127	66	18	
0.75 to < 2.50	1,939	2,570	45.8	3,117	1.14	272	42.4	0.89	2,392	77	15	
2.50 to < 10.00	1,169	221	18.0	1,208	3.39	116	59.0	0.38	1,706	141	24	
10.00 to < 100.00	22	–	–	22	17.20	13	32.6	0.38	35	159	1	
100.00 (Default)	209	–	–	209	100.00	2	61.0	0.53	374	179	119	
Sub-total at 30 Jun 2020	503,113	61,543	40.3	527,903	0.12	15,978	38.9	1.17	81,691	15	295	1,118
Portfolio (iii) – Corporate – small- and medium-sized corporates												
0.00 to < 0.15	11,151	14,506	30.6	15,425	0.11	667	31.9	2.12	2,560	17	5	
0.15 to < 0.25	12,995	10,941	27.8	16,040	0.22	962	27.3	2.11	3,554	22	10	
0.25 to < 0.50	36,148	19,444	28.9	41,762	0.37	1,319	28.6	2.05	12,756	31	44	
0.50 to < 0.75	51,407	20,739	29.4	57,499	0.63	1,397	29.5	2.26	23,705	41	107	
0.75 to < 2.50	111,089	60,781	25.8	126,749	1.50	5,082	29.7	1.93	67,326	53	567	
2.50 to < 10.00	18,611	10,736	28.6	21,680	3.84	1,058	33.2	1.56	16,469	76	283	
10.00 to < 100.00	2,066	351	26.4	2,159	36.99	64	37.0	1.08	2,618	121	233	
100.00 (Default)	999	74	27.5	1,019	100.00	62	46.2	1.56	2,130	209	485	
Sub-total at 30 Jun 2020	244,466	137,572	27.6	282,333	1.81	10,611	29.9	2.00	131,118	46	1,734	2,794
Portfolio (iv) – Corporate – other												
0.00 to < 0.15	632,247	699,190	28.4	828,703	0.08	17,426	43.9	1.84	177,748	21	309	
0.15 to < 0.25	205,005	238,247	30.8	276,157	0.22	5,049	44.6	1.61	106,778	39	271	
0.25 to < 0.50	198,811	181,364	27.0	247,359	0.37	4,178	36.0	1.62	100,896	41	330	
0.50 to < 0.75	201,547	144,255	24.9	236,983	0.63	4,188	37.1	1.58	128,023	54	554	
0.75 to < 2.50	448,781	352,954	22.5	518,456	1.39	10,296	38.7	1.45	401,568	77	2,790	
2.50 to < 10.00	69,481	73,372	22.4	85,939	4.28	2,873	41.7	1.25	101,686	118	1,576	
10.00 to < 100.00	6,281	4,515	35.6	7,890	17.91	242	42.1	1.26	13,969	177	551	
100.00 (Default)	19,673	2,238	29.7	20,336	100.00	523	45.4	1.03	28,853	142	12,259	
Sub-total at 30 Jun 2020	1,781,826	1,696,135	26.8	2,221,823	1.64	44,775	41.1	1.63	1,059,521	48	18,640	29,649

Banking Disclosure Statement at 30 June 2020

Table 24.2: CR6 – Credit risk exposures by portfolio and PD range – for IRB approach (Retail)

	a	b	c	d	e	f	g	h	i	j	k	l
	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	Average CCF	EAD post-CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Provisions
PD scale	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
Portfolio (v) – Retail – qualifying revolving retail exposures												
0.00 to < 0.15	25,191	441,902	34.3	176,884	0.06	4,197,428	101.3	–	6,791	4	105	
0.15 to < 0.25	2,784	17,083	47.0	10,818	0.22	246,723	100.8	–	1,279	12	24	
0.25 to < 0.50	7,465	31,656	37.8	19,436	0.40	368,344	97.2	–	3,599	19	75	
0.50 to < 0.75	6,177	7,567	51.8	10,098	0.58	100,042	97.8	–	2,572	25	57	
0.75 to < 2.50	15,466	35,957	38.4	29,278	1.35	338,249	97.2	–	13,769	47	384	
2.50 to < 10.00	10,275	6,113	60.1	13,950	4.63	136,667	90.8	–	14,622	105	593	
10.00 to < 100.00	4,686	1,639	64.9	5,750	22.29	57,168	87.6	–	11,029	192	1,146	
100.00 (Default)	250	68	2.4	252	100.00	2,967	99.7	–	444	177	216	
Sub-total at 30 Jun 2020	72,294	541,985	35.8	266,466	1.07	5,447,588	99.5	–	54,105	20	2,600	3,097
Portfolio (vi) – Retail – Residential mortgage exposures												
0.00 to < 0.15	397,465	25,353	54.6	411,316	0.09	150,044	13.8	–	70,351	17	48	
0.15 to < 0.25	179,329	13,284	89.1	191,164	0.19	110,198	12.1	–	26,189	14	35	
0.25 to < 0.50	123,815	1,207	58.4	124,520	0.35	47,576	10.1	–	21,392	17	42	
0.50 to < 0.75	106,889	1,915	91.8	108,648	0.60	50,202	15.1	–	20,631	19	95	
0.75 to < 2.50	96,388	851	92.2	97,172	1.16	51,766	11.3	–	19,450	20	121	
2.50 to < 10.00	30,757	133	121.2	30,919	4.92	15,116	11.8	–	11,814	38	179	
10.00 to < 100.00	15,436	245	101.4	15,684	19.39	9,904	11.8	–	9,054	58	242	
100.00 (Default)	3,686	21	–	3,686	100.00	5,303	15.4	–	3,486	95	291	
Sub-total at 30 Jun 2020	953,765	43,009	68.2	983,109	1.14	440,109	12.8	–	182,367	19	1,053	1,399
Portfolio (vii) – Retail – small business retail exposures												
0.00 to < 0.15	2,545	7	100.0	2,553	0.08	1,011	9.4	–	56	2	–	
0.15 to < 0.25	428	2	100.0	430	0.19	124	16.9	–	28	7	–	
0.25 to < 0.50	659	2	100.0	660	0.40	136	27.5	–	113	17	1	
0.50 to < 0.75	359	–	–	359	0.56	145	0.8	–	2	1	–	
0.75 to < 2.50	385	2	100.0	386	1.18	79	25.5	–	105	27	1	
2.50 to < 10.00	419	–	100.0	420	5.28	156	6.8	–	44	10	3	
10.00 to < 100.00	72	1	100.0	72	15.18	27	13.6	–	20	27	1	
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	
Sub-total at 30 Jun 2020	4,867	14	100.0	4,880	0.93	1,678	13.0	–	368	8	6	4
Portfolio (viii) – Other retail exposures to individuals												
0.00 to < 0.15	5,425	42,012	29.5	17,827	0.09	170,302	7.8	–	343	2	1	
0.15 to < 0.25	2,831	31,485	32.9	13,199	0.21	117,626	17.9	–	1,061	8	6	
0.25 to < 0.50	9,355	16,388	34.2	14,958	0.36	109,550	42.1	–	3,676	25	22	
0.50 to < 0.75	4,807	6,132	44.1	7,513	0.67	33,436	21.7	–	1,314	17	10	
0.75 to < 2.50	7,892	2,046	33.7	8,582	1.43	43,861	66.7	–	6,618	77	87	
2.50 to < 10.00	6,910	4,133	43.2	8,694	3.42	42,320	38.5	–	4,894	56	146	
10.00 to < 100.00	823	32	61.9	843	19.31	6,515	91.0	–	1,611	191	150	
100.00 (Default)	144	29	21.4	150	100.00	1,644	63.7	–	251	167	80	
Sub-total at 30 Jun 2020	38,187	102,257	32.8	71,766	1.23	525,254	30.1	–	19,768	28	502	476

Table 24.3: CR6 – Credit risk exposures by portfolio and PD range – for IRB approach (Total)

	a	b	c	d	e	f	g	h	i	j	k	l
	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	Average CCF	EAD post-CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average ¹ maturity	RWAs	RWA density	EL	Provisions ²
	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
Total (sum of all portfolios) at 30 Jun 2020	5,406,617	2,587,122	30.0	6,168,509	0.93	6,486,685	36.7	1.52	1,651,644	27	25,069	40,294

¹ The average maturity is relevant to wholesale portfolios only.

² Provisions in this table represent the eligible provisions as defined under Division 1, Part 6 of the BCR which include the regulatory reserves for general banking risks and the impairment allowances reported under IRB approach.

The increase in weighted average PD from 0.76% in December 2019 to 0.93% in June 2020 was mainly due to an increase of HK\$10,116m in default exposures in other corporate exposures and an increase of HK\$8,971m in retail residential mortgage exposures in the PD bucket '10% to less than 100%' .

Table 25: CR10 – Specialised Lending under supervisory slotting criteria approach – Other than HVCRE

Supervisory Rating Grade	Remaining Maturity	a	b	c	EAD amount			e	f
		On-balance sheet exposure amount	Off-balance sheet exposure amount	SRW	PF	IPRE	Total	RWAs	Expected loss amount
		HK\$m	HK\$m	%	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Strong [^]	Less than 2.5 years	21,035	3,902	50	1,324	21,005	22,329	11,164	–
Strong	Less than 2.5 years	7,879	1,155	70	3,064	5,356	8,420	5,894	34
Strong [^]	Equal to or more than 2.5 years	2,912	1,999	50	3,791	–	3,791	1,896	–
Strong	Equal to or more than 2.5 years	33,794	579	70	11,588	22,470	34,058	23,841	136
Good [^]	Less than 2.5 years	8,457	806	70	18	8,707	8,725	6,108	35
Good	Less than 2.5 years	3,950	2,472	90	–	4,913	4,913	4,422	39
Good [^]	Equal to or more than 2.5 years	2,438	2,465	70	3,200	–	3,200	2,240	13
Good	Equal to or more than 2.5 years	4,227	1,478	90	–	4,741	4,741	4,267	38
Satisfactory		4,952	177	115	1,893	3,120	5,013	5,765	140
Weak		1,457	10	250	1,461	–	1,461	3,651	117
Default		206	–		206	–	206	–	103
Total at 30 Jun 2020		91,307	15,043		26,545	70,312	96,857	69,248	655

[^] Use of preferential risk-weights.

Table 26: CR10 – Equity exposures under the simple risk-weight method

	a	c	d	e
	On-balance sheet exposure amount	SRW	EAD amount	RWAs
	HK\$m	%	HK\$m	HK\$m
Categories				
Publicly traded equity exposures	17	300	17	51
All other equity exposures	6,768	400	6,768	27,072
Total at 30 Jun 2020	6,785		6,785	27,123

Credit risk under standardised approach

Table 27: CR5 – Credit risk exposures by asset classes and by risk weights – for STC approach

Risk Weight	Exposure class	a	c	d	e	f	g	h	j
		0% HK\$m	20% HK\$m	35% HK\$m	50% HK\$m	75% HK\$m	100% HK\$m	150% HK\$m	Total credit risk exposures amount (post CCF and post CRM) HK\$m
1	Sovereign exposures	53,392	271	–	443	–	–	–	54,106
2	PSE exposures	119,494	16,471	–	5,391	–	3,757	–	145,113
2a	<i>of which: domestic PSEs</i>	–	2,402	–	–	–	–	–	2,402
2b	<i>of which: foreign PSEs</i>	119,494	14,069	–	5,391	–	3,757	–	142,711
4	Bank exposures	–	145	–	339	–	596	3	1,083
6	Corporate exposures	–	9,346	–	2,941	–	103,451	–	115,738
10	Regulatory retail exposures	–	–	–	–	52,394	–	–	52,394
11	Residential mortgage loans	–	–	96,969	–	9,251	7,142	–	113,362
12	Other exposures which are not past due exposures	–	–	–	–	–	10,303	–	10,303
13	Past due exposures	75	477	–	–	–	298	2,579	3,429
15	Total at 30 Jun 2020	172,961	26,710	96,969	9,114	61,645	125,547	2,582	495,528

Credit risk mitigation

Table 28: CR3 – Overview of recognised credit risk mitigation

	a	b1	b	d	f	
						Exposures unsecured: carrying amount HK\$m
1	Loans	1,925,035	2,451,780	2,007,409	444,044	327
2	Debt securities	1,580,923	51,262	–	51,262	–
3	Total at 30 Jun 2020	3,505,958	2,503,042	2,007,409	495,306	327
4	<i>of which: defaulted</i>	<i>4,653</i>	<i>9,939</i>	<i>8,871</i>	<i>1,068</i>	<i>-</i>

The increase in unsecured exposures of HK\$245,860m in the first half of 2020 was mainly due to an increase in sovereign exposures from deployment of commercial surplus on treasury bills and notes.

Table 29: CR7 – Effects on RWAs of recognised credit derivative contracts used as recognised credit risk mitigation – for IRB approach

	a	b
	Pre-credit derivatives RWAs HK\$m	Actual RWAs HK\$m
1 Corporate – Specialised lending under supervisory slotting criteria approach (project finance)	20,913	20,913
4 Corporate – Specialised lending under supervisory slotting criteria approach (income-producing real estate)	48,335	48,335
6 Corporate – Small and medium-sized corporates	131,118	131,118
7 Corporate – Other corporates	1,059,527	1,059,521
8 Sovereigns	117,556	117,556
10 Multilateral development banks	5,150	5,150
11 Bank exposures – Banks	63,035	63,035
12 Bank exposures – Securities firms	18,656	18,656
14 Retail – Small business retail exposures	368	368
15 Retail – Residential mortgages to individuals	178,126	178,126
16 Retail – Residential mortgages to property-holding shell companies	4,241	4,241
17 Retail – Qualifying revolving retail exposures ('QRRE')	54,105	54,105
18 Retail – Other retail exposures to individuals	19,768	19,768
19 Equity – Equity exposures under market-based approach (simple risk-weight method)	27,123	27,123
26 Other – Cash items	2,737	2,737
27 Other – Other items	153,888	153,888
28 Total (under the IRB calculation approaches) at 30 Jun 2020	1,904,646	1,904,640

Credit risk mitigation effects from credit derivative contracts are recognised through LGD adjustments. Covered exposures are subject to lower risk-weights as a result of reduced LGDs.

Table 30: CR4 – Credit risk exposures and effects of recognised credit risk mitigation – for STC approach

	a	b	c	d	e	f
	Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWAs and RWA density	
	On-balance sheet amount HK\$m	Off-balance sheet amount HK\$m	On-balance sheet amount HK\$m	Off-balance sheet amount HK\$m	RWAs HK\$m	RWA density %
Exposure classes						
1 Sovereign exposures	–	–	53,747	359	276	1
2 PSE exposures	203,310	11,692	142,157	2,956	9,746	7
2a of which: domestic PSEs	688	3,786	688	1,714	480	20
2b of which: foreign PSEs	202,622	7,906	141,469	1,242	9,266	6
4 Bank exposures	791	1,322	833	250	799	74
5 Securities firm exposures	–	15	–	–	–	50
6 Corporate exposures	127,905	174,545	107,246	8,492	106,792	92
10 Regulatory retail exposures	53,648	376,561	51,977	417	39,295	75
11 Residential mortgage loans	110,775	13,927	110,685	2,677	48,019	42
12 Other exposures which are not past due exposures	17,567	10,761	10,087	216	10,303	100
13 Past due exposures	2,966	969	2,966	463	4,262	124
15 Total at 30 Jun 2020	516,962	589,792	479,698	15,830	219,492	44

Counterparty credit risk exposures

Counterparty default risk exposures

Counterparty credit risk ('CCR') arises from derivatives and

securities financing transactions ('SFTs'). It is calculated in both the trading and non-trading books, and is the risk that a counterparty may default before settlement of the transaction. An economic loss occurs if the transaction or portfolio of transactions with the counterparty has a positive economic value at the time of default. CCR is generated primarily in our wholesale global businesses.

Table 31: CCR1 – Analysis of counterparty default risk exposures (other than those to CCPs) by approaches

	a	b	c	d	e	f
	Replacement cost ('RC')	PFE	Effective expected positive exposures ('EPE')	Alpha (a) used for computing default risk exposure	Default risk exposure after CRM	RWAs
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
1a CEM	13,987	31,093		N/A	44,839	14,083
2 IMM (CCR) approach			69,353	1.4	97,095	35,853
4 Comprehensive Approach (for SFTs)					112,709	14,869
6 Total at 30 Jun 2020						64,805

Table 32: CCR2 – CVA capital charge

	a	b
	EAD post CRM	RWAs
	HK\$m	HK\$m
Netting sets for which CVA capital charge is calculated by the advanced CVA method	97,095	24,999
1 (i) VaR (after application of multiplication factor if applicable)		7,118
2 (ii) Stressed VaR (after application of multiplication factor if applicable)		17,881
3 Netting sets for which CVA capital charge is calculated by the standardised CVA method	39,726	3,885
4 Total at 30 Jun 2020	136,821	28,884

Table 33: CCR6 – Credit-related derivatives contracts

	a	b
	Protection bought	Protection sold
	HK\$m	HK\$m
At 30 Jun 2020		
Notional amounts		
Single-name credit default swaps	298,854	280,618
Index credit default swaps	111,396	104,046
Total return swaps	12,059	–
Total notional amounts	422,309	384,664
Fair values		
Positive fair value (asset)	970	5,739
Negative fair value (liability)	(6,171)	(560)

The increase in the notional amount of credit default swaps by HK\$138,582m in the first half of 2020 is due to increase in client demand in the current economic environment.

Table 34: CCR5 – Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs)

	a	b		c		d	e	f
	Derivative contracts				SFTs			
	Fair value of recognised collateral received		Fair value of posted collateral		Fair value of recognised collateral received		Fair value of posted collateral	
	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Cash – domestic currency	–	4,668	–	3,041	20,101	32,243		
Cash – other currencies	–	82,731	–	60,087	150,465	575,647		
Domestic sovereign debt	–	4	–	61	8,523	20,082		
Other sovereign debt	–	8,605	6,105	25,902	368,393	184,855		
Government agency debt	–	421	–	1,264	–	–		
Corporate bonds	4,924	12,986	5,579	–	232,217	40,527		
Equity securities	–	2,089	–	–	32,677	25,245		
Other collateral	–	6,467	–	–	–	–		
Total at 30 Jun 2020	4,924	117,971	11,684	90,355	812,376	878,599		

The unsegregated collateral received for derivative contracts increased by HK\$46,947m in the first half of 2020, driven by an increase in positive fair value of derivative contracts. While the SFT received and posted collaterals increased by HK\$215,067m and HK\$183,736m respectively in the first half of 2020 due to increased demand for reverse repos from sovereign and bank counterparties.

Table 35: CCR8 – Exposures to CCPs

	a	b
	Exposure after CRM	RWAs
	HK\$m	HK\$m
At 30 Jun 2020		
1 Exposures of the AI as clearing member or client to qualifying CCPs (total)		2,133
2 Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), of which:	8,648	173
3 (i) OTC derivative transactions	2,675	53
4 (ii) exchange-traded derivative contracts	5,973	120
7 Segregated initial margin	6,105	
8 Unsegregated initial margin	8,637	1,174
9 Funded default fund contributions	1,885	786
11 Exposures of the AI as clearing member or client to non-qualifying CCPs (total)		338
12 Default risk exposures to non-qualifying CCPs (excluding items disclosed in rows 17 to 20), of which:	1	1
14 (ii) exchange-traded derivative contracts	1	1
18 Unsegregated initial margin	15	15
19 Funded default fund contributions	26	322

Counterparty default risk under internal ratings-based approach

Table 36: CCR4 – Counterparty default risk exposures (other than those to CCPs) by portfolio and PD range – for IRB approach

	a	b	c	d	e	f	g
	EAD post-CRM HK\$m	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWAs HK\$m	RWA density %
PD scale							
Portfolio (i) – Sovereign							
0.00 to < 0.15	48,899	0.02	53	45.1	0.55	1,847	4
0.15 to < 0.25	2,529	0.22	1	45.0	0.22	620	25
0.25 to < 0.50	29	0.37	1	45.0	1.00	13	44
0.50 to < 0.75	143	0.63	2	48.0	2.13	111	77
0.75 to < 2.50	12	1.20	1	45.0	1.00	9	79
2.50 to < 10.00	–	0.00	–	0.0	–	–	–
10.00 to < 100.00	–	0.00	–	0.0	–	–	–
100.00 (Default)	–	0.00	–	0.0	–	–	–
Sub-total at 30 Jun 2020	51,612	0.04	58	45.1	0.54	2,600	5
Portfolio (ii) – Bank							
0.00 to < 0.15	112,527	0.05	1,503	37.1	1.07	15,510	14
0.15 to < 0.25	10,795	0.22	231	47.2	0.86	4,468	41
0.25 to < 0.50	5,118	0.37	68	46.7	0.79	2,859	56
0.50 to < 0.75	3,563	0.63	34	45.5	0.48	2,379	67
0.75 to < 2.50	389	0.92	31	44.1	1.13	331	85
2.50 to < 10.00	25	3.75	6	47.7	1.09	37	146
10.00 to < 100.00	–	0.00	–	0.0	–	–	–
100.00 (Default)	–	0.00	–	0.0	–	–	–
Sub-total at 30 Jun 2020	132,417	0.10	1,873	38.6	1.03	25,584	19
Portfolio (iii) – Corporate							
0.00 to < 0.15	30,011	0.09	1,611	48.2	2.33	9,252	31
0.15 to < 0.25	11,823	0.22	618	49.6	1.34	5,168	44
0.25 to < 0.50	4,363	0.37	415	51.6	1.58	2,673	61
0.50 to < 0.75	2,905	0.63	402	50.5	1.34	2,292	79
0.75 to < 2.50	7,953	1.40	957	49.0	1.23	7,745	97
2.50 to < 10.00	1,273	4.85	220	47.8	1.33	1,824	143
10.00 to < 100.00	31	17.91	11	54.2	1.00	80	258
100.00 (Default)	1	100.00	3	58.4	1.00	–	–
Sub-total at 30 Jun 2020	58,360	0.46	4,237	49.0	1.85	29,034	50
Total (sum of all portfolios) at 30 Jun 2020	242,389	0.17	6,168	42.5	1.12	57,218	24

At 30 June 2020, the percentage of total RWAs covered by IRB models is 100% for sovereign exposures, 99% for bank exposures and 87% for corporate exposures. Details on the scope of models for each of the regulatory portfolios can be found in the 'Credit risk under internal ratings-based approach' section from pages 25 to 27 of the Banking Disclosure Statement at 31 December 2019.

The increase in average RW% from 22% at 31 December 2019 to 24% at 30 June 2020 was mainly due to an increase in weighted average PD in the counterparty credit risk exposures under corporate and sovereign portfolios.

Counterparty default risk under standardised approach

Table 37: CCR3 – Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach

	a	c	d	e	f	j
	0% HK\$m	20% HK\$m	50% HK\$m	75% HK\$m	100% HK\$m	Total default risk exposure after CRM HK\$m
Risk Weight						
Exposure class						
2 PSE exposures	1,151	1,094	606	–	–	2,851
2a of which: domestic PSEs	–	163	–	–	–	163
2b of which: foreign PSEs	1,151	931	606	–	–	2,688
4 Bank exposures	–	107	514	–	19	640
5 Securities firm exposures	–	–	141	–	–	141
6 Corporate exposures	23	–	–	–	4,370	4,393
8 Regulatory retail exposures	–	–	–	158	–	158
12 Total at 30 Jun 2020	1,174	1,201	1,261	158	4,389	8,183

Securitisation

Analysis of securitisation exposures

Table 38: SEC1 – Securitisation exposures in banking book

	a	b	c	g	h	i
	Acting as originator (excluding sponsor)			Acting as investor		
	Traditional HK\$m	Synthetic HK\$m	Sub-total HK\$m	Traditional HK\$m	Synthetic HK\$m	Sub-total HK\$m
At 30 Jun 2020						
1 Retail (total) – of which:	82,729	–	82,729	38,732	–	38,732
2 <i>residential mortgage</i>	82,729	–	82,729	15,722	–	15,722
3 <i>credit card</i>	–	–	–	7,745	–	7,745
4 <i>other retail exposures</i>	–	–	–	15,265	–	15,265

As an originator, the group securitised HK\$30,835m of additional residential mortgages in the banking book into an existing special purpose entity ('SPE') mainly for liquidity enhancement.

Table 39: SEC2 – Securitisation exposures in trading book

	g	i
	Acting as investor	
	Traditional HK\$m	Sub-total HK\$m
At 30 Jun 2020		
1 Retail (total) – of which:	4,941	4,941
2 <i>residential mortgage</i>	3,601	3,601
4 <i>other retail exposures</i>	1,340	1,340

Table 40: SEC4 – Securitisation exposures in banking book and associated capital requirements – where AI acts as investor

	a	b	c	d	g	h	k	l	o	p
	Exposure values (by RW bands)				Exposure values (by regulatory approach)		RWAs (by regulatory approach)		Capital charges after cap	
	≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	SEC-ERBA (including IAA)	SEC-SA	SEC-ERBA (including IAA)	SEC-SA	SEC-ERBA (including IAA)	SEC-SA
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
At 30 Jun 2020										
1 Total exposures	31,057	2,661	1,550	3,464	31,412	7,320	9,777	2,392	782	191
2 Traditional securitisation	31,057	2,661	1,550	3,464	31,412	7,320	9,777	2,392	782	191
3 <i>of which: securitisation</i>	31,057	2,661	1,550	3,464	31,412	7,320	9,777	2,392	782	191
4 <i>of which: retail</i>	31,057	2,661	1,550	3,464	31,412	7,320	9,777	2,392	782	191

Market risk

Market risk under standardised approach

Table 41: MR1 – Market risk under STM approach

		a
		RWAs HK\$m
Outright product exposures		
2	Equity exposures (general and specific risk)	1,634
4	Commodity exposures	42
8	Securitisation exposures	526
9	Total at 30 Jun 2020	2,202

Analysis of VaR, stressed VaR and incremental risk charge measures

The following table is prepared in accordance with the basis of preparation used to calculate the group's market risk capital charge under the IMM approach.

Table 42: MR3 – IMM approach values for market risk exposures

		Footnotes	a
			HK\$m
At 30 Jun 2020			
VaR (10 day – one-tailed 99% confidence interval)		<i>1</i>	
1	Maximum Value		890
2	Average Value		623
3	Minimum Value		433
4	Period End		728
Stressed VaR (10 day – one-tailed 99% confidence interval)		<i>1</i>	
5	Maximum Value		754
6	Average Value		471
7	Minimum Value		351
8	Period End		700
Incremental risk charge ('IRC') (99.9% confidence interval)			
9	Maximum Value		3,464
10	Average Value		2,916
11	Minimum Value		2,457
12	Period End		2,558

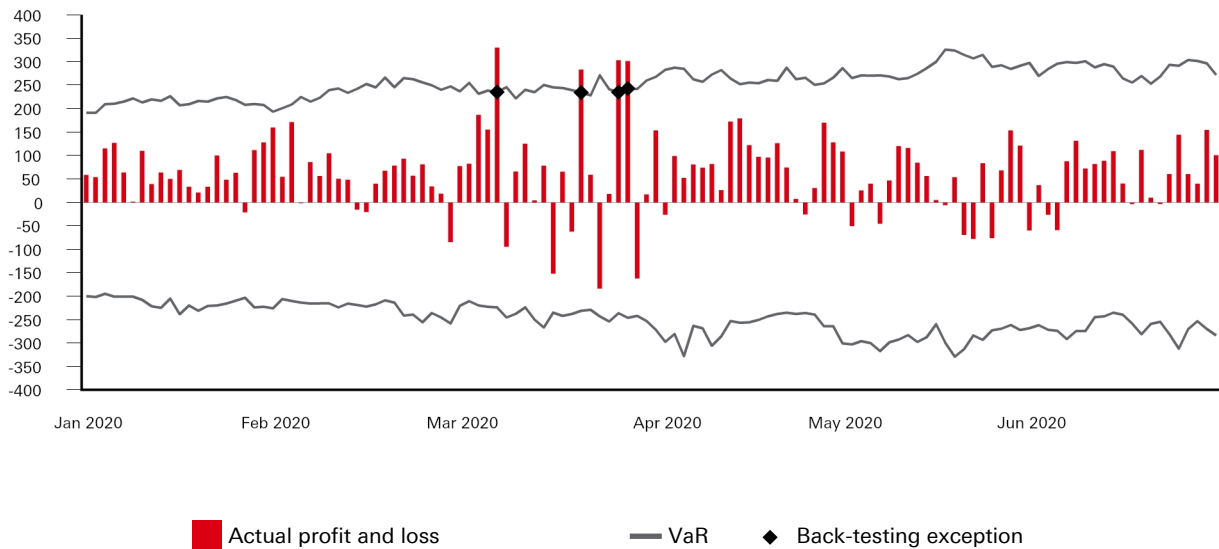
1 The total VaR excludes Risks not in VaR ('RNIV').

The group trading VaR and trading stressed VaR were higher as at 30 June 2020 compared to 31 December 2019, mainly contributed by interest rate VaR and credit VaR amid the market volatility in the first half of 2020.

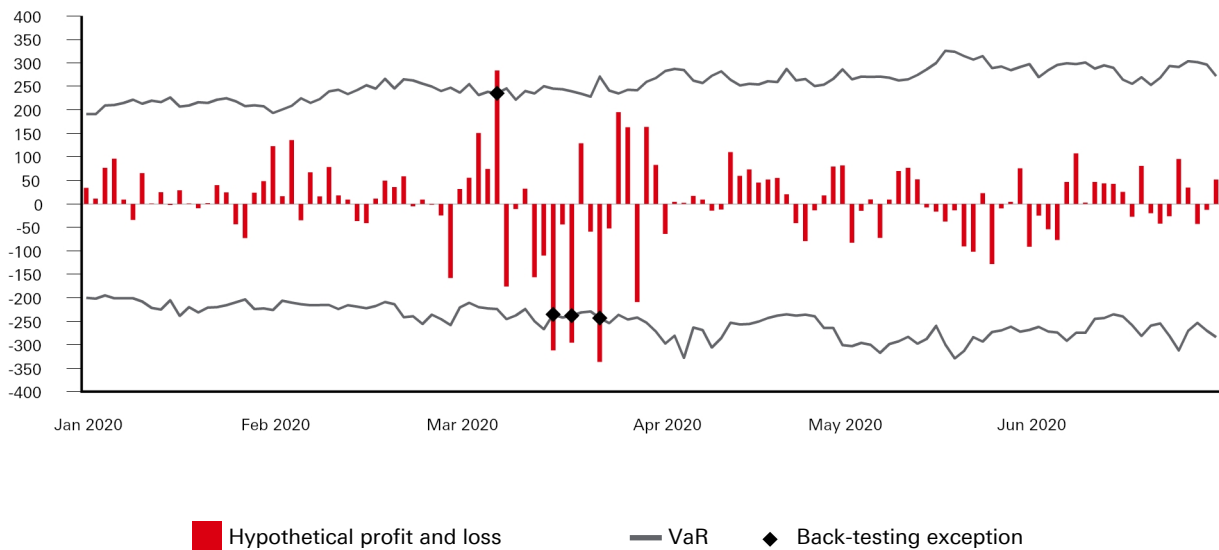
Trading IRC at 30 June 2020 was lower than 31 December 2019 due to the reduction in the trading bond inventory.

Table 43: MR4 – Comparison of VaR estimates with gains or losses

VaR back-testing exceptions against actual profit and loss (HK\$m)



VaR back-testing exceptions against hypothetical profit and loss (HK\$m)



In the first half of 2020, the group experienced three loss back-testing exceptions and one profit back-testing exception against hypothetical profit and losses, as well as four profit back-testing exceptions against actual profit and losses. The hypothetical back-testing exceptions in March 2020 were due to extreme market volatility resulting from the economic impact of the Covid-19 outbreak, which was significantly greater than the volatility used in the model calibration. Despite the high number of loss

exceptions, performance of the VaR model was in line with the expectations when considered in the context of the extraordinary market movements observed in March 2020. During this period, market risk continued to be managed using a complementary set of exposure measures and limits, including stress and scenario analysis. This ensured that the business was prudently managed and performed well across the period.

Liquidity information

Table 44: LIQ1 – Liquidity coverage ratio – for category 1 institution

		a	b
		Quarter ended 30 Jun 2020	
		Unweighted value (average) HK\$m	Weighted value (average) HK\$m
Number of data points used in calculating the average value of the LCR and related components set out in this table for the quarters ended on 30 June 2020 was 71.			
Basis of disclosure: consolidated			
A	HQLA		
1	Total HQLA		1,730,870
B	Cash outflows		
2	Retail deposits and small business funding, of which:	3,317,400	311,124
3	<i>Stable retail deposits and stable small business funding</i>	295,334	8,917
4	<i>Less stable retail deposits and less stable small business funding</i>	3,022,066	302,207
5	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the AI, of which:	2,268,215	1,051,986
6	<i>Operational deposits</i>	638,544	155,198
7	<i>Unsecured wholesale funding (other than small business funding) not covered in row 6</i>	1,620,589	887,706
8	<i>Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period</i>	9,082	9,082
9	Secured funding transactions (including securities swap transactions)		5,194
10	Additional requirements, of which:	518,946	220,283
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	172,912	172,731
12	<i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	1,065	1,065
13	<i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	344,969	46,487
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	189,160	189,160
15	Other contingent funding obligations (whether contractual or non-contractual)	3,015,731	19,846
16	Total cash outflows		1,797,593
C	Cash inflows		
17	Secured lending transactions (including securities swap transactions)	447,383	96,453
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	615,252	410,249
19	Other cash inflows	237,752	222,965
20	Total cash inflows	1,300,387	729,667
D	Liquidity coverage ratio (adjusted value)		
21	Total HQLA		1,730,870
22	Total net cash outflows		1,067,926
23	LCR (%)		162.0%

Table 45: LIQ2 – Net stable funding ratio – for category 1 institution

		a	b	c	d	e
		Quarter ended 30 Jun 2020				
		Unweighted value by residual maturity				
Basis of disclosure: consolidated		No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	Weighted amount
		HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
A	Available stable funding ('ASF') item					
1	Capital:	774,666	–	–	20,158	794,824
2	Regulatory capital	771,566	–	–	15,821	787,387
3	Other capital instruments	3,100	–	–	4,337	7,437
4	Retail deposits and small business funding:		3,356,712	–	–	3,034,557
5	Stable deposits		270,319	–	–	256,803
6	Less stable deposits		3,086,393	–	–	2,777,754
7	Wholesale funding:	–	2,841,878	18,641	17,484	1,062,471
8	Operational deposits		682,405	–	–	341,202
9	Other wholesale funding	–	2,159,473	18,641	17,484	721,269
10	Liabilities with matching interdependent assets	306,284	–	–	–	–
11	Other liabilities:	278,566	275,591	26,823	239,852	253,264
13	All other funding and liabilities not included in the above categories	278,566	275,591	26,823	239,852	253,264
14	Total ASF					5,145,116
B	Required stable funding ('RSF') item					
15	Total HQLA for NSFR purposes		2,009,866			80,547
17	Performing loans and securities:	260,603	1,957,583	355,696	2,437,900	2,867,475
18	Performing loans to financial institutions secured by Level 1 HQLA	–	476,270	3,398	12,625	61,951
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	18,070	325,024	64,851	170,211	269,461
20	Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:	149,626	970,338	240,758	1,291,272	1,764,826
21	With a risk-weight of less than or equal to 35% under the STC approach	2,635	3,659	2,251	9,740	10,998
22	Performing residential mortgages, of which:	–	20,273	18,787	910,154	631,059
23	With a risk-weight of less than or equal to 35% under the STC approach	–	18,206	17,546	810,509	544,707
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	92,907	165,678	27,902	53,638	140,178
25	Assets with matching interdependent liabilities	306,284	–	–	–	–
26	Other assets:	802,587	192,937	129	1,111	451,716
27	Physical traded commodities, including gold	16,403				13,942
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	58,189				49,461
29	Net derivative assets	25,933				25,933
30	Total derivative liabilities before deduction of variation margin posted	288,737				14,437
31	All other assets not included in the above categories	413,325	192,937	129	1,111	347,943
32	Off-balance sheet items			3,198,598		21,933
33	Total RSF					3,421,671
34	Net Stable Funding Ratio (%)					150.4

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Table 45: LIQ2 – Net stable funding ratio – for category 1 institution (continued)

		a	b	c	d	e	
		Quarter ended 31 Mar 2020					
		Unweighted value by residual maturity					
Basis of disclosure: consolidated		No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more	Weighted amount	
		Footnotes	HK\$m	HK\$m	HK\$m	HK\$m	
A	Available stable funding ('ASF') item						
1	Capital:		762,573	—	—	19,298	781,871
2	Regulatory capital		762,573	—	—	14,351	776,924
3	Other capital instruments		—	—	—	4,947	4,947
4	Retail deposits and small business funding:			3,275,010	—	—	2,962,577
5	Stable deposits			301,346	—	—	286,279
6	Less stable deposits			2,973,664	—	—	2,676,298
7	Wholesale funding:		—	2,757,565	42,598	15,481	1,004,973
8	Operational deposits			613,007	—	—	306,503
9	Other wholesale funding		—	2,144,558	42,598	15,481	698,470
10	Liabilities with matching interdependent assets		300,044	—	—	—	—
11	Other liabilities:		206,890	244,543	27,838	252,428	266,348
13	All other funding and liabilities not included in the above categories		206,890	244,543	27,838	252,428	266,348
14	Total ASF						5,015,769
B	Required stable funding ('RSF') item						
15	Total HQLA for NSFR purposes	¹		1,729,036			77,264
17	Performing loans and securities:		171,648	2,011,317	295,083	2,638,210	2,956,238
18	Performing loans to financial institutions secured by Level 1 HQLA		—	415,777	629	559	42,452
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions		19,106	434,961	57,138	181,118	294,037
20	Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:		59,394	989,246	199,560	1,462,489	1,847,140
21	With a risk-weight of less than or equal to 35% under the STC approach		169	5,078	475	9,461	9,036
22	Performing residential mortgages, of which:		—	13,254	12,328	927,398	633,691
23	With a risk-weight of less than or equal to 35% under the STC approach		—	9,393	9,103	836,941	553,260
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities		93,148	158,079	25,428	66,646	138,918
25	Assets with matching interdependent liabilities		300,044	—	—	—	—
26	Other assets:		888,116	153,001	77	2,228	452,771
27	Physical traded commodities, including gold		18,077				15,366
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		61,443				52,226
29	Net derivative assets		34,813				34,813
30	Total derivative liabilities before deduction of variation margin posted		376,581				18,829
31	All other assets not included in the above categories		397,202	153,001	77	2,228	331,537
32	Off-balance sheet items	¹			3,043,330		16,512
33	Total RSF						3,502,785
34	Net Stable Funding Ratio (%)						143.2

¹ The unweighted values disclosed in these rows are not required to be split by residual maturity.

The NSFR increased by 7.2% from 143.2% for the quarter ended 31 March 2020 to 150.4% for the quarter ended 30 June 2020, mainly as a result of the increase in customer deposits.

Information relating to the group's liquidity and funding risk management can be found in page 19 of the group's *Interim Report 2020*.

Other disclosures

Mainland activities

The analysis of mainland activities is based on the categories of

non-bank counterparties and the type of direct exposures defined by the HKMA under the BDR with reference to the HKMA's 'Return of Mainland Activities – (MA(BS)20)', which includes the mainland exposures extended by the Bank's Hong Kong offices and wholly-owned banking subsidiaries in mainland China.

Table 46: Mainland activities

	On-balance sheet exposure	Off-balance sheet exposure	Total exposures	
	HK\$m	HK\$m	HK\$m	
At 30 Jun 2020				
Types of counterparties				
1	Central government, central government-owned entities and their subsidiaries and joint ventures ('JVs')	239,447	25,990	265,437
2	Local governments, local government-owned entities and their subsidiaries and JVs	73,752	5,762	79,514
3	People's Republic of China ('PRC') nationals residing in mainland China or other entities incorporated in mainland China and their subsidiaries and JVs	375,766	59,015	434,781
4	Other entities of central government not reported in item 1 above	17,307	5,430	22,737
5	Other entities of local governments not reported in item 2 above	6,938	1,827	8,765
6	PRC nationals residing outside mainland China or entities incorporated outside mainland China where the credit is granted for use in mainland China	34,526	4,369	38,895
7	Other counterparties where the exposures are considered by the reporting institution to be non-bank mainland China exposures	44,971	5,471	50,442
	Total	792,707	107,864	900,571
	Total assets after provision	5,520,541		
	On-balance sheet exposures as percentage of total assets	14.36%		

International claims

The group's country risk exposures in the table below are prepared in accordance with the HKMA Return of International Banking Statistics – (MA(BS)21) guidelines. International claims are on-balance sheet exposures to counterparties based on the location

of the counterparties, after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies.

The table shows claims on individual countries and territories or areas, after recognised risk transfer, amounting to not less than 10% of the group's total international claims.

Table 47: International claims

	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Others	Total
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
At 30 Jun 2020						
Developed countries	539,513	513,359	346,849	381,915	–	1,781,636
– of which: United States	46,695	182,113	102,745	144,629	–	476,182
Offshore centres	74,971	56,585	127,708	514,629	–	773,893
– of which: Hong Kong	48,451	1,352	66,042	324,414	–	440,259
Developing Asia and Pacific	414,680	138,957	93,662	413,755	31	1,061,085
– of which: Mainland China	331,273	91,173	53,122	239,555	31	715,154

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Foreign currency positions

The group's foreign exchange exposures in the tables below are

prepared in accordance with the HKMA return 'Foreign Currency Position Return – (MA(BS)6)'. The group had the following net structural foreign currency exposures that were not less than 10% of total net structural foreign currency positions at 30 June 2020:

Table 48: Net structural foreign currency exposures

	Net structural position	
	LCYm	HK\$m
At 30 Jun 2020		
Renminbi	209,688	229,766

The group had the following non-structural foreign currency positions that were not less than 10% of the net non-structural positions in all foreign currencies at 30 June 2020:

Table 49: Non-structural foreign currency positions

HK\$m equivalent	United States Dollars
At 30 Jun 2020	
Spot assets	2,229,309
Spot liabilities	(2,700,729)
Forward purchases	11,028,531
Forward sales	(10,508,358)
Net options positions	(25,196)
Net long (net short) position	23,557

The net options positions reported above are calculated using the delta-weighted positions of the options contracts.

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
LCYm	Millions of local currency

A

AI	Authorised institution
ASF	Available stable funding
AT1	Additional tier 1

B

BCBS	Basel Committee on Banking Supervision
BCR	Banking (Capital) Rules
BDR	Banking (Disclosure) Rules
BLR	Banking (Liquidity) Rules
BSC	Basic approach

C

CCF	Credit conversion factor
CCP	Central counterparty
CCR ¹	Counterparty credit risk
CCyB ¹	Countercyclical capital buffer
CEM	Current exposure method
CET1 ¹	Common equity tier 1
CRM	Credit risk mitigation/mitigant
CVA	Credit valuation adjustment

D

D-SIB	Domestic systemically important authorised institution
DTAs	Deferred tax assets

E

EAD ¹	Exposure at default
ECL	Expected credit loss
EL ¹	Expected loss
EPE	Effective expected positive exposures

F

FIRO	Financial Institutions (Resolution) Ordinance
FSB	Financial Stability Board
FX	Foreign exchange

G

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

H

HAHO	HSBC Asia Holdings Limited
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
HQLA	High-quality liquid assets
HSBC	HSBC Holdings together with its subsidiary
HVCRE	High volatility commercial real estate

I

IAA	Internal assessment approach
IMM ¹	Internal Models Method
IMM(CCR)	Internal models (counterparty credit risk)
IPRE	Income producing real estate
IRB ¹	Internal ratings-based approach
IRC	Incremental risk charge

J

JCCyB	Jurisdictional countercyclical capital buffer
JVs	Joint ventures

L

LAC	Loss-absorbing capacity
LAC Rules	Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements - Banking Sector) Rules
LCR	Liquidity Coverage Ratio
LGD ¹	Loss given default
LR	Leverage ratio

M

MSRs	Mortgage servicing rights
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N

NSFR	Net stable funding ratio
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O

OBS	Off-balance sheet
OTC ¹	Over-the-counter

P

PD ¹	Probability of default
PF	Project finance
PFE	Potential future exposure
PRC	People's Republic of China
PSE	Public sector entities

Q

QRRE	Qualifying revolving retail exposures
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R

RC	Replacement cost
RNIV	Risks not in VaR
RSF	Required stable funding
RW	Risk-weight
RWA ¹	Risk-weighted asset/risk-weighted amount

S

SA-CCR	Standardised approach for counterparty credit risk
SEC-ERBA	Securitisation external ratings-based approach
SEC-FBA	Securitisation fall-back approach
SEC-IRBA	Securitisation internal ratings-based approach
SEC-SA	Securitisation standardised approach
SFT ¹	Securities Financing Transactions
SPE	Special purpose entity
SRW	Supervisory risk-weight
STC	Standardised (credit risk) approach
STM	Standardised (market risk) approach

T

T1	Tier 1
T2	Tier 2
TC	Total regulatory capital
TLAC	Total Loss-absorbing Capacity

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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