

The Hongkong and Shanghai Banking Corporation Limited

**Banking Disclosure Statement at 30 September 2019
(unaudited)**

Contents

	Page
Introduction	2
Purpose	2
Basis of preparation	2
The Banking Disclosure Statement	2
Loss-absorbing Capacity Disclosures	2
Key metrics	3
Capital and RWAs	5
Leverage ratio	5
Overview of RWAs and the minimum capital requirements	6
RWA flow statements	7
Liquidity information	8
Other information	10
Abbreviations	10

Tables

		Page
1	KM1 – Key prudential ratios	3
2	KM2(A) – Key metrics – LAC requirements	4
3	LR2 – Leverage ratio	5
4	OV1 – Overview of RWAs	6
5	CR8 – RWA flow statement of credit risk exposures under IRB approach	7
6	CCR7 – RWA flow statement of default risk exposures under IMM(CCR) approach	7
7	MR2 – RWA flow statement of market risk exposures under IMM approach	7
8	Average liquidity coverage ratio	8
9	Total weighted amount of high-quality liquid assets	8
10	LIQ1 – Liquidity coverage ratio – for category 1 institution	9

Introduction

Purpose

The information contained in this document is for The Hongkong and Shanghai Banking Corporation Limited ('the Bank') and its subsidiaries (together 'the group'). The Banking Disclosure Statement complies with both the Banking (Disclosure) Rules ('BDR') made under section 60A of the Banking Ordinance and the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements - Banking Sector) Rules ('LAC Rules') made under section 19(1) of the Financial Institutions (Resolution) Ordinance ('FIRO').

References to 'HSBC', 'the Group' or 'the HSBC Group' within this document mean HSBC Holdings plc together with its subsidiaries. Within this document the Hong Kong Special Administrative Region of the People's Republic of China is referred to as 'Hong Kong'. The abbreviations 'HK\$m' and 'HK\$bn' represent millions and billions (thousands of millions) of Hong Kong dollars respectively.

These banking disclosures are governed by the group's disclosure policy, which has been approved by the Board of Directors. The disclosure policy sets out the governance, control and assurance requirements for publication of the document. While the disclosure statement is not required to be externally audited, the document has been subject to independent review in accordance with the group's policies on disclosure and its financial reporting and governance processes.

Basis of preparation

Except where indicated otherwise, the financial information contained in this Banking Disclosure Statement has been prepared on a consolidated basis. The basis of consolidation for regulatory purposes is different from that for accounting purposes.

The approaches used in calculating the group's regulatory capital and risk-weighted assets ('RWAs') are in accordance with the Banking (Capital) Rules ('BCR'). The group uses the advanced internal ratings-based approach to calculate its credit risk for the majority of its non-securitisation exposures. For securitisation exposures, the group uses the securitisation internal ratings-based approach, securitisation external ratings-based approach, securitisation standardised approach or securitisation fall-back approach to determine credit risk for its banking book securitisation exposures. For counterparty credit risk, the group uses both the current exposure method and an internal models approach to calculate its default risk exposures. For market risk, the group uses an internal models approach to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold) exposures, and equity exposures. The group also uses an internal models approach to calculate its market risk in respect of specific risk for interest rate exposures and equity exposures. The group uses the standardised (market risk) approach for calculating other market risk positions, as well as trading book securitisation exposures, and the standardised (operational risk) approach to calculate its operational risk.

The Banking Disclosure Statement

The group's Banking Disclosure Statement at 30 September 2019 comprises 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 all of the information required under the BDR and the LAC Rules except for the disclosures of "Main features of regulatory capital instruments and non-capital LAC debt instruments". These disclosures are in a standalone document which can be found in the Regulatory Disclosure section of our website, www.hsbc.com.hk.

Loss-absorbing Capacity Disclosures

The LAC Rules in Hong Kong were implemented in December 2018. Following classification under these rules by the HKMA, entities in Hong Kong are required to issue loss-absorbing capacity ('LAC') instruments that can be written down or converted in the event of failure.

On 1 April 2019, HSBC Asia Holdings Limited ('HAHO'), the immediate parent company of the Bank, was classified as a resolution entity by the HKMA. At the same time, both the Bank and Hang Seng Bank Limited were classified as material subsidiaries. Following this classification, both HAHO and the group are required to publish LAC disclosures in accordance with the LAC Rules from 30 September 2019, subsequent to conformance with the LAC requirements from 1 July 2019. The basis of calculating the group's LAC and RWAs is in accordance with the LAC Rules. The disclosures are made in accordance with the standard disclosure templates as issued by the HKMA.

The group's LAC disclosures are included as part of this Banking Disclosure Statement while HAHO's LAC disclosures are 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 at Q319:

KM2 - Key metrics of resolution groups

- Page 30 of the HSBC Group's Earnings Release at Q319

CCA(A) - Main features of the 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>
-

Key metrics
Table 1: KM1 – Key prudential ratios

		a	b	c	d	e
		At				
	Footnotes	30 Sep 2019	30 Jun 2019	31 Mar 2019	31 Dec 2018	30 Sep 2018
Regulatory capital (HK\$m)						
1	Common Equity Tier 1 ('CET1')	482,522	480,610	472,760	463,774	436,665
2	Tier 1	528,254	526,297	510,575	501,503	472,590
3	Total capital	590,912	589,349	572,506	557,180	537,336
Risk-weighted assets ('RWAs') (HK\$m)						
4	Total RWAs	2,905,034	2,897,902	2,881,842	2,813,912	2,744,189
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	16.6	16.6	16.4	16.5	15.9
6	Tier 1 ratio (%)	18.2	18.2	17.7	17.8	17.2
7	Total capital ratio (%)	20.3	20.3	19.9	19.8	19.6
Additional CET1 buffer requirements (as a percentage of RWA)						
8	Capital conservation buffer requirement (%)	2.500	2.500	2.500	1.875	1.875
9	Countercyclical capital buffer (CCyB) requirement (%)	1.26	1.27	1.26	0.96	1.09
10	Higher loss absorbency requirement (%) (applicable only to G-SIBs or D-SIBs)	2.500	2.500	2.500	1.875	1.875
11	Total AI-specific CET1 buffer requirements (%)	6.26	6.27	6.26	4.71	4.84
12	CET1 available after meeting the authorised institution's ('AI's') minimum capital requirements (%)	12.1	12.1	11.7	11.8	11.2
Basel III leverage ratio						
13	Total leverage ratio ('LR') exposure measure (HK\$m)	8,039,868	8,136,588	7,968,614	7,741,301	7,663,757
14	LR (%)	6.6	6.5	6.4	6.5	6.2
Liquidity Coverage Ratio ('LCR')						
15	Total high quality liquid assets ('HQLA') (HK\$m)	1,527,910	1,583,650	1,663,852	1,566,715	1,502,149
16	Total net cash outflows (HK\$m)	1,021,983	1,074,261	1,106,393	974,311	956,466
17	LCR (%)	149.7	147.5	150.5	161.0	157.2
Net Stable Funding Ratio ('NSFR')						
18	Total available stable funding (HK\$m)	4,907,163	4,902,835	4,829,714	4,789,003	4,675,909
19	Total required stable funding (HK\$m)	3,452,888	3,379,361	3,313,491	3,198,246	3,238,487
20	NSFR (%)	142.1	145.1	145.8	149.7	144.4

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 As at 3Q19, the capital conservation buffer requirement, the jurisdictional CCyB of Hong Kong used in the calculation of the CCyB buffer requirement and the higher loss absorbency requirement was 2.5% in accordance with the phase-in arrangements set out by the HKMA. The jurisdictional CCyB of other countries used in the calculation of the CCyB buffer requirement ranged from 0% to 2.5%. On 14 October 2019, the HKMA announced a reduction in the Hong Kong CCyB to 2.0% from 2.5%, effective immediately.

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.

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

	a	b	c	d	e	
	At ¹					
	30 Sep 2019	30 Jun 2019	31 Mar 2019	31 Dec 2018	30 Sep 2018	
Of the group at LAC consolidation group level						
1	Internal loss-absorbing capacity available (HK\$m)	762,295	NA	NA	NA	NA
2	Risk-weighted amount under the LAC Rules (HK\$m)	2,905,034	NA	NA	NA	NA
3	Internal LAC risk-weighted ratio (%)	26.2	NA	NA	NA	NA
4	Exposure measure under the LAC Rules (HK\$m)	8,033,779	NA	NA	NA	NA
5	Internal LAC leverage ratio (%)	9.5	NA	NA	NA	NA
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 commences on 30 September 2019 in accordance with the LAC Rules, accordingly the prior periods' ratios are not available.
- 2 The subordination exemptions in the antepenultimate and penultimate paragraphs of Section 11 of the FSB TLAC Term Sheet do not apply in Hong Kong under the LAC Rules.

Capital and RWAs

total exposure measure as contained in the 'Leverage Ratio' return submitted to the HKMA under the requirements specified in Part 1C of the BCR.

Leverage ratio

The following table shows the leverage ratio, tier 1 capital and

Table 3: LR2 – Leverage ratio

	a	b
	30 Sep	30 Jun
	2019	2019
	HK\$m	HK\$m
On-balance sheet exposures		
1	On-balance sheet exposures (excluding those arising from derivative contracts and securities financing transactions ('SFTs'), but including collateral)	6,873,253
	6,765,850	
2	Less: Asset amounts deducted in determining Tier 1 capital	(224,669)
	(223,224)	
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	6,648,584
Exposures arising from derivative contracts		
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	40,037
	41,614	
5	Add-on amounts for potential future exposure ('PFE') associated with all derivative contracts	364,013
	363,512	
8	Less: Exempted central counterparty ('CCP') leg of client-cleared trade exposures	(3,200)
	(4,284)	
9	Adjusted effective notional amount of written credit derivative contracts	524,634
	392,809	
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	(519,851)
	(377,654)	
11	Total exposures arising from derivative contracts	405,633
Exposures arising from SFTs		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	506,233
	504,027	
14	Counterparty credit risk ('CCR') exposure for SFT assets	19,639
	25,154	
16	Total exposures arising from SFTs	525,872
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	2,998,431
	3,024,375	
18	Less: Adjustments for conversion to credit equivalent amounts	(2,424,900)
	(2,453,973)	
19	Off-balance sheet items	573,531
Capital and total exposures		
20	Tier 1 capital	526,297
	528,254	
20a	Total exposures before adjustments for specific and collective provisions	8,153,620
20b	Adjustments for specific and collective provisions	(17,032)
	(18,338)	
21	Total exposures after adjustments for specific and collective provisions	8,136,588
Leverage ratio		
22	Leverage ratio	6.5%
	6.6%	

On-balance sheet exposures decreased by HK\$107,403m in the third quarter of the year mainly due to a decrease in money market placements with banks and central bank balances, partially offset by an increase in corporate loans.

Overview of RWAs and the minimum capital requirements

Table 4: OV1 – Overview of RWAs

	a	b	c
	RWAs ¹		Minimum ² capital requirements
	30 Sep 2019 HK\$m	30 Jun 2019 HK\$m	30 Sep 2019 HK\$m
1 Credit risk for non-securitisation exposures	2,077,216	2,102,564	174,970
2 <i>of which: standardised credit risk ('STC') approach</i>	245,426	267,108	19,634
4 <i>of which: supervisory slotting criteria approach</i>	62,438	65,801	5,295
5 <i>of which: advanced internal ratings-based ('IRB') approach</i>	1,769,352	1,769,655	150,041
6 Counterparty default risk and default fund contributions	68,330	59,900	5,744
7a <i>of which: current exposure method ('CEM')</i>	16,188	14,753	1,365
8 <i>of which: internal models (counterparty credit risk) ('IMM(CCR)') approach</i>	35,489	33,447	2,987
9 <i>of which: Others</i>	16,653	11,700	1,392
10 Credit valuation adjustment ('CVA') Risk	21,449	21,471	1,716
11 Equity positions in banking book under the simple risk-weight method and the internal models method	25,373	27,100	2,152
15 Settlement risk	15	5	1
16 Securitisation exposures in banking book	15,842	18,694	1,267
18 <i>of which: securitisation external ratings-based approach ('SEC-ERBA') including internal assessment approach ('IAA')</i>	14,117	17,924	1,129
19 <i>of which: securitisation standardised approach ('SEC-SA')</i>	1,725	770	138
20 Market risk	122,153	102,158	9,773
21 <i>of which: standardised market risk ('STM') approach</i>	4,170	3,106	334
22 <i>of which: internal models ('IMM') approach</i>	117,983	99,052	9,439
24 Operational risk	347,611	339,836	27,809
25 Amounts below the thresholds for deduction (subject to 250% RW)	145,733	145,447	12,358
26a Deduction to RWAs	42,341	42,753	3,387
26b <i>of which: portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital</i>	325	309	26
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>	42,016	42,444	3,361
27 Total	2,781,381	2,774,422	232,403

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

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

Credit risk for non-securitisation exposures

RWAs decreased by HK\$25,348m in the third quarter of 2019, mainly due to a decrease of HK\$21,682m in standardised approach RWAs driven by:

- a decrease of HK\$2,246m from foreign currency translation differences;
- HK\$10,764m from RWA savings initiatives; and
- HK\$4,341m from migration of the non-recourse receivable finance portfolio to the IRB approach as a result of model update.

Market risk

RWAs increased by HK\$19,995m in the third quarter of 2019 mainly due to movements in risk levels.

RWA flow statements
RWA flow statement for credit risk

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

		a
		HK\$m
1	RWAs as at 30 Jun 2019	1,835,456
2	Asset size	4,737
3	Asset quality	9,290
4	Model updates	1,615
5	Methodology and policy	(6,999)
7	Foreign exchange movements	(12,309)
9	RWAs as at 30 Sep 2019	1,831,790

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

RWAs under the IRB approach decreased by HK\$3,666m in the third quarter of 2019, including a decrease in foreign currency translation differences of HK\$12,309m. Excluding foreign currency translation differences, the underlying increase of HKD8,643m was mainly due to:

- a HK\$9,290m increase from asset quality as a result of an increase in average risk weight of the wholesale portfolios;

- a HK\$4,737m increase in asset size due to growth in corporate exposures, partly offset by;
- a HK\$6,999m decrease in methodology and policy as a result of RWA initiatives.

RWA flow statement for counterparty credit risk

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

		a
		HK\$m
1	RWAs as at 30 Jun 2019	33,447
2	Asset size	2,544
3	Credit quality of counterparties	(920)
4	Model updates	290
7	Foreign exchange movements	128
9	RWAs as at 30 Sep 2019	35,489

RWA flow statement for market risk

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

	a	b	c	e	f	
	Value at risk ('VaR')	Stressed VaR	Incremental risk charge ('IRC')	Other	Total RWAs	
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	
1	RWAs as at 30 Jun 2019	17,510	24,597	40,342	16,603	99,052
2	Movement in risk levels	782	8,956	361	7,239	17,338
3	Model updates/changes	(21)	1,234	–	–	1,213
6	Foreign exchange movements	67	94	155	64	380
8	RWAs as at 30 Sep 2019	18,338	34,881	40,858	23,906	117,983

RWAs increased by HK\$18,931m in the third quarter of 2019 mainly due to movements in risk levels.

Liquidity information

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

the Banking (Liquidity) Rules. The group is required to maintain an LCR of not less than 100%.

Table 8: Average liquidity coverage ratio

	Quarter ended 30 Sep 2019 %
Average liquidity coverage ratio	149.7

The liquidity position of the group remained strong in the third quarter of 2019. The average LCR increased from 147.5% for the quarter ended 30 June 2019 to 149.7% for the quarter ended 30 September 2019.

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

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

	Weighted value (average value for the quarter ended) 30 Sep 2019 HK\$m
Level 1 assets	1,442,763
Level 2A assets	75,142
Level 2B assets	10,005
Total weighted amount of HQLA	1,527,910

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

In times of stress it cannot automatically be assumed that one currency can always be converted for another, even if those currencies are 'hard' currencies. LCR is therefore assessed by single currency for those that are material. In some currencies, convertibility is restricted by regulators and central banks and this restriction results in local currency not being convertible offshore or even onshore. All operating entities are required to monitor material single currency LCR. Limits are approved and monitored by local Asset and Liability Management Committee.

Most of the group's derivative transactions are exchange rate contracts and interest rate contracts. Under the terms of our current collateral obligations under derivative contracts (which are International Swaps and Derivatives Association ('ISDA') compliant Credit Support Annex ('CSA') contracts), the additional collateral required to post in the event of a one-notch and two-notch downgrade in credit ratings is immaterial.

Information relating to the Bank's approach to liquidity risk management and its interaction with the HSBC Group's Asset, Liability and Capital Management function can be found in the Risk Report of the group's *Annual Report and Accounts 2018*.

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

Number of data points used in calculating the average value of the LCR and related components set out in this table for the quarter ended 30 September 2019: 77		a	b
		Quarter ended 30 Sep 2019	
		Unweighted value (average) HK\$m	Weighted value (average) HK\$m
Basis of disclosure: consolidated			
A	HQLA		
1	Total HQLA		1,527,910
B	Cash outflows		
2	Retail deposits and small business funding, of which:	3,225,474	300,007
3	<i>Stable retail deposits and stable small business funding</i>	333,135	10,773
4	<i>Less stable retail deposits and less stable small business funding</i>	2,892,339	289,234
5	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the AI, of which:	2,063,873	996,266
6	<i>Operational deposits</i>	536,852	130,675
7	<i>Unsecured wholesale funding (other than small business funding) not covered in Row 6</i>	1,514,746	853,316
8	<i>Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period</i>	12,275	12,275
9	Secured funding transactions (including securities swap transactions)		6,567
10	Additional requirements, of which:	495,601	175,517
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	125,999	125,763
12	<i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	1,158	1,158
13	<i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	368,444	48,596
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	147,417	147,417
15	Other contingent funding obligations (whether contractual or non-contractual)	2,924,611	19,945
16	Total cash outflows		1,645,719
C	Cash inflows		
17	Secured lending transactions (including securities swap transactions)	283,981	56,344
18	Secured and unsecured loans (other than secured lending transactions covered in Row 17) and operational deposits placed at other financial institutions	571,945	376,773
19	Other cash inflows	200,263	190,619
20	Total cash inflows	1,056,189	623,736
D	Liquidity coverage ratio (adjusted value)		
21	Total HQLA		1,527,910
22	Total net cash outflows		1,021,983
23	LCR (%)		149.7

Other information

Abbreviations

The following abbreviated terms are used throughout this document:

Currencies

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

A

AI	Authorised institution
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B

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

C

CCP	Central counterparty
CCR	Counterparty credit risk
CEM	Current exposure method
CET1 ¹	Common equity tier 1
CSA ¹	Credit Support Annex
CVA	Credit valuation adjustment
CCyB	Countercyclical capital buffer

D

D-SIB	Domestic systemically important bank
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F

FIRO	The Financial Institutions (Resolution) Ordinance
FSB	Financial Stability Board

G

Group	HSBC Holdings together with its subsidiary undertakings
group	The Hongkong and Shanghai Banking Corporation Limited together with its subsidiary undertakings
G-SIB ¹	Global systemically important bank

H

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

I

IAA	Internal assessment approach
IMM ¹	Internal model method
IMM(CCR)	Internal models (counterparty credit risk)
IRB ¹	Internal ratings-based approach
IRC ¹	Incremental risk charge
ISDA	International Swaps and Derivatives Association

L

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

N

NSFR	Net stable funding ratio
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P

PFE ¹	Potential future exposure
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R

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

SEC-ERBA	Securitisation external ratings-based approach
SEC-SA	Securitisation standardised approach
SFT	Securities financing transaction
STC	Standardised (credit risk) approach
STM	Standardised (market risk) approach

T

TLAC	Total loss-absorbing capacity
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V

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

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