



The Hongkong and Shanghai Banking
Corporation Limited

Banking Disclosure Statements
for the three months ended 31 March 2017
(Unaudited)

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Introduction

Purpose

The information contained in this document is for The Hongkong and Shanghai Banking Corporation Limited ('the Bank') and its subsidiaries (together 'the group'). These Banking Disclosure Statements together with the Regulatory Capital Instruments, taken together, comply with the Banking (Disclosure) Rules made under section 60A of the Banking Ordinance.

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

While the banking disclosures are not required to be externally audited, the document has been verified internally in accordance with the group's policies on disclosure and its financial reporting and governance processes.

Basis of preparation

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

Except where indicated otherwise, the financial information contained in these banking disclosure statements has been prepared on a consolidated basis. The basis of consolidation for regulatory purposes is different from that for accounting purposes.

The accounting policies applied in preparing these banking disclosure statements are the same as those applied in preparing the consolidated financial statements for the year ended 31 December 2016, as set out in note 1 on the financial statements in the *Annual Report and Accounts 2016*.

The banking disclosure statements

The group's banking disclosure statements comprise the majority of the information required under the Banking (Disclosure) Rules. The group has implemented the Basel Committee on Banking Supervision ('BCBS') final standards on revised Pillar 3 disclosures issued in January 2015. These disclosures are supplemented by specific additional requirements of the HKMA set out in the Banking (Disclosure) (Amendment) Rules 2016.

The Regulatory Capital Instruments disclosures for 31 March 2017 can be found in the Regulatory Disclosures section of our website, www.hsbc.com.hk.

Key capital ratios

The following disclosures are made in accordance with section 16ZQ in Part 2B of the Banking (Disclosure) Rules.

Capital ratio

The table below shows the capital ratios and risk weighted assets ('RWAs') 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.

Table 1: Capital ratios

| | <i>Footnotes</i> | 31 Mar 2017 |
|---|------------------|------------------------|
| Common Equity Tier 1 ('CET1') capital ratio | 1 | 15.2 |
| Tier 1 capital ratio | 2 | 16.3 |
| Total capital ratio | 3 | 18.4 |
| | | HK\$m |
| CET1 capital | | 398,658 |
| Tier 1 capital | | 428,461 |
| Total capital | | 483,713 |
| Total risk-weighted assets | | 2,622,389 |

1 Common Equity Tier 1 ('CET1') capital ratio equals to CET1 capital divided by Total risk-weighted assets

2 Tier 1 capital ratio equals to Tier 1 capital divided by Total risk-weighted assets

3 Total capital ratio equals to Total capital divided by Total risk-weighted assets

Leverage ratio

The table below shows the leverage ratio, tier 1 capital and total exposure measure as contained in the 'Quarterly Template on Leverage Ratio' submitted to the HKMA on a consolidated basis under the requirements specified in the 'Leverage Ratio Framework'.

Table 2: Leverage ratio

| | <i>Footnotes</i> | 31 Mar 2017 |
|--|------------------|------------------------|
| Leverage ratio | 1 | 6.0 |
| Capital and leverage ratio exposure measure | | HK\$m |
| Tier 1 capital | | 428,461 |
| Total exposure measure | | 7,106,741 |

1 Leverage ratio equals to Tier 1 capital divided by Total exposure measure

Capital requirements and RWAs

Overview of RWAs

The following table provides an overview of the capital requirements in terms of detailed breakdown of RWAs for credit risk, market risk and operational risk. Minimum capital requirement means the amount of capital required to be held for that risk based on its risk-weighted amount multiplied by 8%.

Table 3: Overview of RWAs

| | RWAs | | Minimum capital requirements |
|--|------------------|------------------|------------------------------|
| | 31 Mar 2017 | 31 Dec 2016 | 31 Mar 2017 |
| | HK\$m | HK\$m | HK\$m |
| 1 Credit risk for non-securitisation exposures | 1,941,454 | 1,902,606 | 155,316 |
| 2 – Of which STC approach | 241,058 | 244,066 | 19,285 |
| 2a – Of which BSC approach | - | - | - |
| 3 – Of which IRB approach | 1,700,396 | 1,658,540 | 136,031 |
| 4 Counterparty credit risk | 163,510 | 171,150 | 13,081 |
| 5 – Of which SA-CCR | - | - | - |
| 5a – Of which CEM | 88,579 | 95,930 | 7,086 |
| 6 – Of which IMM(CCR) approach | - | - | - |
| 7 Equity positions in the banking book under the market-based approach | 29,061 | 27,031 | 2,325 |
| 8 CIS exposures – LTA | - | - | - |
| 9 CIS exposures – MBA | - | - | - |
| 10 CIS exposures – FBA | - | - | - |
| 11 Settlement risk | 25 | 305 | 2 |
| 12 Securitisation exposures in banking book | 9,476 | 6,205 | 758 |
| 13 – Of which IRB(S) approach – ratings-based method | 9,476 | 6,205 | 758 |
| 14 – Of which IRB(S) approach – supervisory formula method | - | - | - |
| 15 – Of which STC(S) approach | - | - | - |
| 16 Market risk | 85,910 | 90,454 | 6,873 |
| 17 – Of which STM approach | 499 | 393 | 40 |
| 18 – Of which IMM approach | 85,411 | 90,061 | 6,833 |
| 19 Operational risk | 300,148 | 299,295 | 24,012 |
| 20 – Of which BIA approach | - | - | - |
| 21 – Of which STO approach | 300,148 | 299,295 | 24,012 |
| 21a – Of which ASA approach | - | - | - |
| 22 – Of which AMA approach | N/A | N/A | N/A |
| 23 Amounts below the thresholds for deduction (subject to 250% RW) | 126,355 | 125,001 | 10,108 |
| 24 Capital floor adjustment | - | - | - |
| 24a Deduction to RWAs | 33,550 | 33,458 | 2,684 |
| 24b – Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital | 394 | 666 | 32 |
| 24c – Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital | 33,156 | 32,792 | 2,652 |
| 25 Total | 2,622,389 | 2,588,589 | 209,791 |

During the first quarter in 2017, total RWAs increased by HK\$33,800m, of which HK\$20,359m was due to foreign currency translation. The main driver for the rest of the increase was due to growth in corporate loan book in Hong Kong and China.

RWA flow statements

RWA flow statement for credit risk

The following table aims to explain variations in the RWAs for credit risk determined under the internal-rating based approach. The analysis is prepared in accordance with the key drivers as specified in the standard template. For the purpose of this section, any reference to exposures related to 'credit risk' is referring to credit risk for non-securitisation exposures excluding counterparty credit risk.

Table 4: RWA flow statements of credit risk exposures under IRB approach

| | <i>a</i> |
|---|---------------|
| | RWAs HK\$m |
| 1 RWAs as at end of previous reporting period | 1,658,540 |
| 2 Asset size | 32,824 |
| 3 Asset quality | (5,822) |
| 4 Model updates | - |
| 5 Methodology and policy | (1,056) |
| 6 Acquisitions and disposals | - |
| 7 Foreign exchange movements | 15,910 |
| 8 Other | - |
| 9 RWAs as at end of reporting period | 1,700,396 |

Credit risk RWAs increased by HK\$41,856m over the quarter, mainly coming from increase in asset size and foreign exchange movements.

Asset size

Increase in asset size was principally a result of corporate loan growth in Hong Kong and China.

Foreign exchange movements

Increase in foreign exchange movements was primarily due to depreciation of HK dollars and US dollars during the quarter.

RWA flow statement for market risk

The following table aims to explain variations in the RWAs for market risk determined under the internal model method (IMM) approach. The analysis is prepared in accordance with the key drivers as specified in the standard template.

Table 5: RWA flow statements of market risk exposures under IMM approach

| | a | b | c | d | e | f |
|-------------------------------------|----------|---------|--------|-------|---------|---------|
| | Stressed | | | | | Total |
| | VaR | VaR | IRC | CRC | Other | RWAs |
| | HK\$m | HK\$m | HK\$m | HK\$m | HK\$m | HK\$m |
| 1 RWAs at previous reporting period | 13,744 | 27,816 | 37,380 | - | 11,121 | 90,061 |
| 2 Movement in risk levels | 1,186 | (9,046) | 1,547 | - | 4,833 | (1,480) |
| 3 Model updates/changes | - | - | - | - | (3,170) | (3,170) |
| 4 Methodology and policy | - | - | - | - | - | - |
| 5 Acquisitions and disposals | - | - | - | - | - | - |
| 6 Foreign exchange movements | - | - | - | - | - | - |
| 7 Other | - | - | - | - | - | - |
| 8 RWAs at end of reporting period | 14,930 | 18,770 | 38,927 | - | 12,784 | 85,411 |

Market risk RWAs arising from internal models decreased by HK\$4,650m over the quarter, mainly coming from model updates/ changes.

Model updates/changes

The model update comprised of the inclusion of the equity skew risk within VaR models and the removal of the corresponding Risk-Not-in-VaR (RNIV).