

The Hongkong and Shanghai Banking Corporation Limited

**Banking Disclosure Statement at 30 June 2018
(unaudited)**

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Introduction

Purpose

The information contained in this document is for The Hongkong and Shanghai Banking Corporation Limited ('the Bank') and its subsidiaries (together 'the group'). The Banking Disclosure Statement and the Regulatory Capital Instruments document, taken together, comply with the Banking (Disclosure) Rules ('BDR') 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 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 Hong Kong Monetary Authority ('HKMA') has implemented the Basel Committee on Banking Supervision ('BCBS') standards on revised Pillar 3 disclosures requirements released in January 2015 ('January 2015 standard') since 2017. In June 2018, the HKMA has further amended the BDR to incorporate the BCBS Pillar 3 disclosure requirements – consolidated and enhanced framework finalised in March 2017 ('March 2017 standard'). The group has implemented the relevant updates and new requirements in accordance with the latest BDR.

According to the BDR, 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. The remainder of the disclosure requirements are covered in the Regulatory Capital Instruments document which can be found in the Regulatory Disclosure section of our website, www.hsbc.com.hk.

BDR requirements covered in the Regulatory Capital Instruments document:

- The main features of the capital instruments
 - The full terms and conditions of the capital instruments
-

Table 1: KM1 – Key prudential ratios

		a	b	c	d	e
		At ¹				
	Footnotes	30 Jun 2018	31 Mar 2018	31 Dec 2017	30 Sep 2017	30 Jun 2017
Regulatory capital (HK\$m)						
1	Common Equity Tier 1 (CET1)	428,578	429,683	438,693	423,873	411,584
2	Tier 1	464,537	465,593	468,021	453,771	441,517
3	Total capital	529,848	529,687	522,244	509,785	497,834
Risk-weighted assets ('RWAs') (HK\$m)						
4	Total RWAs	2,785,568	2,857,038	2,758,609	2,758,187	2,709,315
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	15.4	15.0	15.9	15.4	15.2
6	Tier 1 ratio (%)	16.7	16.3	17.0	16.5	16.3
7	Total capital ratio (%)	19.0	18.5	18.9	18.5	18.4
Additional CET1 buffer requirements (as a percentage of RWA)						
8	Capital conservation buffer requirement (%)	1.875	1.875	1.25	1.25	1.25
9	Countercyclical capital buffer requirement (%)	1.08	1.05	0.70	0.70	0.71
10	Higher loss absorbency requirement (%) (applicable only to G-SIBs or D-SIBs)	1.875	1.875	1.25	1.25	1.25
11	Total AI-specific CET1 buffer requirements (%)	4.83	4.80	3.20	3.20	3.21
12	CET1 available after meeting the AI's minimum capital requirements (%)	10.68	10.30	10.93	10.45	10.30
Basel III leverage ratio						
13	Total leverage ratio (LR) exposure measure (HK\$m)	7,688,762	7,710,103	7,477,306	7,405,036	7,253,947
14	LR (%)	6.0	6.0	6.3	6.1	6.1
Liquidity Coverage Ratio (LCR)						
15	Total high quality liquid assets (HQLA) (HK\$m)	1,455,156	1,497,248	1,491,318	1,474,709	1,450,509
16	Total net cash outflows (HK\$m)	988,881	995,254	971,469	933,443	895,353
17	LCR (%)	147.2	150.5	153.6	158.0	162.1
Net Stable Funding Ratio (NSFR)						
18	Total available stable funding (HK\$m)	4,693,322	4,747,483	N/A	N/A	N/A
19	Total required stable funding (HK\$m)	3,208,268	3,278,547	N/A	N/A	N/A
20	NSFR (%)	146.3	144.8	N/A	N/A	N/A

1 All figures reported in 2018 are under the new Hong Kong Financial Reporting Standard 9 ('HKFRS 9'). Prior to 2018, the figures presented are reported under the Hong Kong Accounting Standard 39 ('HKAS 39').

2 The regulatory capital, RWAs, risk-based regulatory capital ratios and additional CET1 buffer requirements are disclosed in accordance with the information 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').

3 From 1 January 2018 onwards, the Basel III leverage ratio disclosures are made 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. Prior to 2018, the leverage ratio disclosures are made in accordance with the 'Quarterly Template on Leverage Ratio' submitted to the HKMA during the parallel run period.

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. The requirements have been implemented with effect from 2018 reporting periods. Accordingly, the 2017 ratios are not shown.

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 2017*.

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\$46,720m 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 2018.

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 2018.

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 2018, the effect of this requirement is to reduce the amount of reserves which can be distributed to shareholders by HK\$25,861m.

There are no relevant capital shortfalls in any of the group's subsidiaries at 30 June 2018 which are not included in its consolidation group for regulatory purposes.

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

	Principal activities	At 30 Jun 2018	
		Total assets HK\$m	Total equity HK\$m
HSBC Broking Futures (Hong Kong) Ltd	Futures broking	4,924	600
HSBC Broking Services (Asia) Ltd and its subsidiaries	Broking services	16,671	2,930
HSBC Corporate Advisory (Malaysia) Sdn Bhd	Financial services	12	11
HSBC Global Asset Management Holdings (Bahamas) Ltd	Asset management	128	128
HSBC Global Asset Management (Hong Kong) Ltd	Asset management	1,040	679
HSBC Investment Funds (Hong Kong) Ltd	Asset management	622	254
HSBC Global Asset Management (Japan) K.K.	Asset management	225	123
HSBC Global Asset Management (Singapore) Ltd	Asset management	77	53
HSBC Insurance (Asia-Pacific) Holdings Ltd and its subsidiaries	Insurance	421,292	32,992
HSBC InvestDirect (India) Ltd and its subsidiaries	Financial services	680	571
HSBC Securities (Asia) Ltd and its subsidiaries	Broking services	423	422
HSBC Securities (Japan) Ltd	Broking services	152,958	1,733
HSBC Securities (Singapore) Pte Ltd	Broking services	504	67
HSBC Securities Brokers (Asia) Ltd	Broking services	14,914	3,679
HSBC Qianhai Securities Ltd	Broking services	2,009	1,831
Hang Seng Futures Ltd	Futures broking	102	102
Hang Seng Insurance Co. Ltd and its subsidiaries	Insurance	135,854	11,454
Hang Seng Investment Management Ltd	Asset management	1,440	1,395
Hang Seng Investment Services Ltd	Investment services	9	9
Hang Seng Securities Ltd	Broking services	2,915	963
Hang Seng Qianhai Fund Management Co. Ltd	Asset management	139	129

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 2018		
	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	184,796	183,441	
Items in the course of collection from other banks	40,113	40,113	
Hong Kong Government certificates of indebtedness	280,524	280,524	
Trading assets	512,139	496,942	
Derivatives	337,300	337,410	
Financial assets designated and otherwise mandatorily measured at fair value	134,140	7,627	
<i>of which: significant capital investments in financial sector entities exceeding 10% threshold</i>		5	1
Reverse repurchase agreements – non-trading	345,937	217,724	
Placings with and advances to banks	441,132	429,635	
Loans and advances to customers	3,496,917	3,493,410	
<i>of which: impairment allowances eligible for inclusion in Tier 2 capital</i>		(3,288)	2
Financial investments	1,723,754	1,356,789	
<i>of which: significant capital investments in financial sector entities exceeding 10% threshold</i>		1,436	3
Amounts due from Group companies	158,636	271,568	
<i>of which: significant capital investments in financial sector entities exceeding 10% threshold</i>		1,885	4
<i>of which: significant capital investments in financial sector entities</i>		3,772	5
Investments in subsidiaries	–	16,909	
<i>of which: significant capital investments in financial sector entities exceeding 10% threshold</i>		16,909	6
Interests in associates and joint ventures	144,193	141,128	
<i>of which: goodwill</i>		3,906	7
<i>of which: significant capital investments in financial sector entities exceeding 10% threshold</i>		83,947	8
Goodwill and intangible assets	62,931	13,171	
<i>of which: goodwill</i>		4,906	9
<i>of which: intangible assets</i>		8,265	10
Property, plant and equipment	119,181	115,897	
Deferred tax assets	2,463	2,399	
<i>of which: deferred tax assets net of related tax liabilities</i>		2,516	11
<i>of which: deferred tax liabilities related to goodwill</i>		(91)	12
<i>of which: deferred tax liabilities related to intangible assets</i>		(26)	13
Prepayments, accrued income and other assets	254,711	177,436	
<i>of which: defined benefit pension fund net assets</i>		91	14
Total assets	8,238,867	7,582,123	

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

	a	b	c
	At 30 Jun 2018		
	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	280,524	280,524	
Items in the course of transmission to other banks	49,317	49,317	
Repurchase agreements – non-trading	60,991	60,991	
Deposits by banks	208,402	208,402	
Customer accounts	5,152,524	5,146,210	
Trading liabilities	101,439	101,439	
Derivatives	328,073	328,513	
<i>of which: gains and losses due to changes in own credit risk on fair valued liabilities</i>		(344)	15
Financial liabilities designated at fair value	184,447	146,643	
<i>of which: gains and losses due to changes in own credit risk on fair valued liabilities</i>		(78)	16
Debt securities in issue	46,962	46,962	
Retirement benefit liabilities	2,128	2,128	
Amounts due to Group companies	339,152	330,531	
<i>of which: qualifying Tier 2 capital instruments</i>		17,893	17
<i>of which: gains and losses due to changes in own credit risk on fair valued liabilities</i>		995	18
Accruals and deferred income, other liabilities and provisions	206,717	147,971	
Liabilities under insurance contracts	456,920	–	
Current tax liabilities	8,622	7,294	
Deferred tax liabilities	24,520	16,739	
<i>of which: deferred tax liabilities related to intangible assets</i>		1,145	19
<i>of which: deferred tax liabilities related to defined benefit pension fund net assets</i>		10	20
Subordinated liabilities	4,111	4,111	
<i>of which: portion eligible for Tier 2 capital instruments, subject to phase-out arrangements</i>		3,139	21
Preference shares	21,116	21,016	
<i>of which: portion eligible for AT1 capital instruments, subject to phase-out arrangements</i>		19,446	22
<i>of which: portion eligible for Tier 2 capital instruments, subject to phase-out arrangements</i>		1,570	23
Total liabilities	7,475,965	6,898,791	
Equity			
Share capital	151,360	151,360	
<i>of which: portion eligible for inclusion in CET1 capital</i>		149,906	24
<i>of which: revaluation reserve capitalisation issue</i>		1,454	25
Other equity instruments	14,737	14,737	
<i>of which: qualifying AT1 capital instruments</i>		14,737	26
Other reserves	115,033	114,131	
<i>of which: fair value gains arising from revaluation of land and buildings</i>		60,855	28
<i>of which: cash flow hedging reserves</i>		(142)	29
<i>of which: valuation adjustment</i>		20	30
Retained earnings	423,970	354,248	
<i>of which: regulatory reserve for general banking risks</i>		25,861	32
<i>of which: regulatory reserve eligible for inclusion in Tier 2 capital</i>		12,966	33
<i>of which: fair value gains arising from revaluation of land and buildings</i>		4,863	34
<i>of which: valuation adjustment</i>		1,627	35
Total shareholders' equity	705,100	634,476	
Non-controlling interests	57,802	48,856	
<i>of which: portion allowable in CET1 capital</i>		25,398	36
<i>of which: portion allowable in AT1 capital</i>		1,776	37
Total equity	762,902	683,332	
Total equity and liabilities	8,238,867	7,582,123	

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 2018	
	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	Directly issued qualifying CET1 capital instruments plus any related share premium	24
2	Retained earnings	31
3	Disclosed reserves	27
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	36
6	CET1 capital before regulatory adjustments	643,683
CET1 capital: regulatory deductions		
7	Valuation adjustments	30+35
8	Goodwill (net of associated deferred tax liabilities)	7+9+12
9	Other intangible assets (net of associated deferred tax liabilities)	10+13-19
10	Deferred tax assets (net of associated deferred tax liabilities)	11
11	Cash flow hedge reserve	29
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-(15+16+18)
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	14-20
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	1+3+4+6+8
26	National specific regulatory adjustments applied to CET1 capital	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	28+34
26b	Regulatory reserve for general banking risks	32
28	Total regulatory deductions to CET1 capital	215,105
29	CET1 capital	428,578
AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	26
31	<i>of which: classified as equity under applicable accounting standards</i>	26
33	Capital instruments subject to phase-out arrangements from AT1 capital	22
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidated group)	37
36	AT1 capital before regulatory deductions	35,959
44	AT1 capital	35,959
45	Tier 1 capital (T1 = CET1 + AT1)	464,537
Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	17
47	Capital instruments subject to phase-out arrangements from Tier 2 capital	21+23
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	33-2
51	Tier 2 capital before regulatory deductions	38,856
Tier 2 capital: regulatory deductions		
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	5
56	National specific regulatory adjustments applied to Tier 2 capital	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	(25+28+34)x45%
57	Total regulatory adjustments to Tier 2 capital	(26,455)
58	Tier 2 capital (T2)	65,311
59	Total regulatory capital (TC = T1 + T2)	529,848
60	Total RWAs	2,785,568

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

		a	b
		At 30 Jun 2018	
		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	15.39%	
62	Tier 1 capital ratio	16.68%	
63	Total capital ratio	19.02%	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	4.83%	
65	<i>of which: capital conservation buffer requirement</i>	1.875%	
66	<i>of which: bank specific countercyclical capital buffer requirement</i>	1.08%	
67	<i>of which: higher loss absorbency requirement</i>	1.875%	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	10.68%	
Amounts below the thresholds for deduction (before risk weighting)			
72	Insignificant capital investments in CET1, AT1 and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	15,253	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	53,275	
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)	4,439	
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	3,802	
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)	18,533	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	12,452	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
82	Current cap on AT1 capital instruments subject to phase-out arrangements	20,628	
84	Current cap on Tier 2 capital instruments subject to phase-out arrangements	18,231	

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

Notes to the template:

		At 30 Jun 2018	
		Hong Kong basis	Basel III basis
		HK\$m	HK\$m
10	Deferred tax assets (net of associated deferred tax liabilities)	2,516	103

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 2018	
		Hong Kong basis	Basel III basis
		HK\$m	HK\$m
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	104,182	102,297

Explanation:

For the purpose of determining the total amount of significant capital 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% thresholds mentioned above 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.

CET1 capital decreased in the first half of 2018 by HK\$10.1bn, mainly due to:

- a decrease of HK\$19.8bn from the completion of phase-in capital deductions under the transitional arrangements of the Banking (Capital) Rules on 1 January 2018, with a corresponding increase in AT1 and Tier 2 capital;
- HK\$5.5bn of unfavourable foreign currency translation differences; offset by
- HK\$14.4bn of capital generated through profits, net of dividends.

Banking Disclosure Statement at 30 June 2018

The following is a summary of the group's common equity tier 1 ('CET1') capital, additional tier 1 ('AT1') capital and tier 2 capital instruments.

Table 5: Capital instruments

	At 30 Jun 2018	
	Total amount	Amount recognised in regulatory capital HK\$m
CET1 capital instruments		
Ordinary shares:		
46,440,991,798 issued and fully paid ordinary shares	HK\$151,360m	149,906
AT1 capital instruments		
Floating rate perpetual subordinated loans, callable from 2019	US\$1,900m	14,737
Perpetual non-cumulative preference shares	US\$2,478m	19,446
Tier 2 capital instruments		
Perpetual cumulative preference shares	US\$200m	1,570
Primary capital undated floating rate notes	US\$400m	3,139
Subordinated loan due 2023	US\$500m	3,924
Subordinated loan due 2024, callable from 2019	US\$1,600m	12,556
Subordinated loan due 2025, callable from 2020	US\$180m	1,413

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 booking country as the basis of geographical allocation for 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. The increase in CCyB ratio from 0.70% at 31 December 2017 to 1.08% at 30 June 2018 was mainly due to increase in the Hong Kong JCCyB ratio from 1.25% to 1.875% from 1 January 2018.

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

Geographical breakdown by Jurisdiction (J)	Footnotes	a	c	d	e
		Applicable JCCyB ratio in effect %	RWAs used in computation of CCyB ratio HK\$m	AI-specific CCyB ratio %	CCyB amount HK\$m
At 30 Jun 2018					
1	Hong Kong	1.875	1,182,370		
2	United Kingdom	0.500	593		
3	Norway	2.000	50		
4	Sweden	2.000	77		
5	Sum		1,183,090		
6	Total		2,053,014	1.08	30,084

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

2 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 bank 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).

There is a change in the methodology of calculating the CCyB amount following the implementation of the Banking (Disclosure) (Amendment) Rules 2018 where the disclosure template has been updated. At 30 June 2018, the CCyB amount represents the group's total RWAs multiplied by the group specific CCyB ratio.

Prior to 30 June 2018, the CCyB amount was the group's total RWAs relating to private sector credit exposures multiplied by the group specific CCyB ratio. The change is presentational only and has no impact on the group's capital requirements.

Leverage ratio

Table 7: LR2 – Leverage ratio

	a	b	
	30 Jun 2018 HK\$m	31 Mar 2018 HK\$m	
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	6,509,389	6,385,255
2	Less: Asset amounts deducted in determining Tier 1 capital	(217,131)	(216,042)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	6,292,258	6,169,213
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)	61,168	67,233
5	Add-on amounts for PFE associated with all derivative contracts	329,053	333,091
8	Less: Exempted CCP leg of client-cleared trade exposures	(4,799)	(4,391)
9	Adjusted effective notional amount of written credit derivative contracts	452,854	399,212
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	(445,241)	(378,637)
11	Total exposures arising from derivative contracts	393,035	416,508
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	461,788	580,502
14	CCR exposure for SFT assets	5,096	8,910
16	Total exposures arising from SFTs	466,884	589,412
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	2,856,308	2,852,124
18	Less: Adjustments for conversion to credit equivalent amounts	(2,303,279)	(2,300,388)
19	Off-balance sheet items	553,029	551,736
Capital and total exposures			
20	Tier 1 capital	464,537	465,593
20a	Total exposures before adjustments for specific and collective provisions	7,705,206	7,726,869
20b	Adjustments for specific and collective provisions	(16,444)	(16,766)
21	Total exposures after adjustments for specific and collective provisions	7,688,762	7,710,103
Leverage ratio			
22	Leverage ratio	6.04%	6.04%

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

	a	
	Value under the LR framework	
	30 Jun 2018 HK\$m	
Item		
1	Total consolidated assets as per published financial statements	8,238,867
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(615,088)
4	Adjustments for derivative contracts	55,625
5	Adjustment for SFTs (i.e. repos and similar secured lending)	5,096
6	Adjustment for off-balance sheet ('OBS') items (i.e. conversion to credit equivalent amounts of OBS exposures)	553,029
6a	Adjustments for collective provisions and specific provisions that are allowed to be excluded from exposure measure	(734)
7	Other adjustments	(548,033)
8	Leverage ratio exposure measure	7,688,762

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 in accordance with the 'Leverage Ratio Framework' issued by the HKMA.

Overview of the minimum capital requirements and RWAs

The following table provides an overview of the minimum capital requirements and RWAs by risk type and approach, as contained in the 'Capital Adequacy Ratio' return. Minimum capital

requirement represents the Pillar1 capital charge at 8% of the RWAs after application of the 1.06 scaling factor, where applicable.

Table 9: OV1 – Overview of RWAs

	a	b	c
	RWAs ¹		Minimum capital requirements
	30 Jun 2018 HK\$m	31 Mar 2018 HK\$m	30 Jun 2018 HK\$m
1 Credit risk for non-securitisation exposures	2,027,620	2,014,414	170,591
2 <i>Of which standardised credit risk ('STC') approach</i>	281,544	277,344	22,524
4 <i>Of which supervisory slotting criteria approach</i>	58,201	58,376	4,935
5 <i>Of which advanced internal ratings-based ('IRB') approach</i>	1,687,875	1,678,694	143,132
6 Counterparty default risk and default fund contributions	62,593	88,573	5,266
7a <i>Of which current exposure method ('CEM')</i>	15,923	78,708	1,343
8 <i>Of which internal models (counterparty credit risk) ('IMM(CCR)') approach</i>	37,440	—	3,155
9 <i>Of which Others</i>	9,230	9,865	768
10 Credit valuation adjustment ('CVA') Risk	22,159	55,140	1,773
11 Equity positions in banking book under the simple risk-weight method and the internal models method	25,404	28,725	2,154
15 Settlement risk	123	27	10
16 Securitisation exposures in banking book	15,305	17,312	1,224
18 <i>Of which securitisation external ratings-based approach ('SEC-ERBA')</i>	15,305	17,312	1,224
20 Market risk	110,283	130,637	8,823
21 <i>Of which standardised market risk ('STM') approach</i>	2,728	2,843	219
22 <i>Of which internal models ('IMM') approach</i>	107,555	127,794	8,604
24 Operational risk	308,945	304,974	24,716
25 Amounts below the thresholds for deduction (subject to 250% RW)	133,190	134,153	11,295
26a Deduction to RWAs	37,582	35,839	3,007
26b <i>Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital</i>	638	489	51
26c <i>Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital</i>	36,944	35,350	2,956
27 Total	2,668,040	2,738,116	222,845

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

Credit risk for non-securitisation exposures

RWAs increased by HK\$13,206m in the second quarter, mainly driven by growth in corporate lending in Hong Kong.

Counterparty credit risk

RWAs decreased in the second quarter as a result of the implementation of an Internal Models (Counterparty Credit Risk) Approach ("IMM(CCR) approach").

Market risk

Market risk RWAs from internal models decreased by HK\$20,239m during the second quarter of the year mainly from movements in risk levels.

RWA flow statements

RWA flow statement for credit risk

The following table shows movements in RWAs for credit risk determined under the IRB approach. The analysis is prepared in

accordance with the key drivers as specified in the standard template. For the purposes 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 10: CR8 – RWA flow statement of credit risk exposures under IRB approach

	a
	HK\$m
1 RWAs as at 31 Mar 2018	1,737,070
2 Asset size	48,690
3 Asset quality	(2,411)
4 Model updates	172
5 Methodology and policy	(9,774)
7 Foreign exchange movements	(27,671)
9 RWAs as at 30 Jun 2018	1,746,076

Credit risk RWAs under the IRB approach increased by HK\$9,006m in the second quarter of the year mainly due to:

- an increase in asset size of HK\$48,690m as a result of growth in the corporate loan book mainly in Hong Kong; partly offset by
- a decrease of HK\$27,671m due to foreign currency translation differences;

- a decrease in RWAs related to changes in methodology and policy of HK\$9,774m, mainly as a result of RWA initiatives.

RWA flow statement for counterparty credit risk

The following table shows movements in RWAs for default risk determined under the internal models (counterparty credit risk) ('IMM(CCR)') approach. The analysis is prepared in accordance with the key drivers as specified in the standard template.

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

	a
	HK\$m
1 RWAs as at 31 Mar 2018	–
4 Model updates	37,440
9 RWAs as at 30 Jun 2018	37,440

The increase in RWAs for IMM(CCR) was due to the implementation of an internal models approach during the second quarter.

RWA flow statement for market risk

The following table shows movements in RWAs for market risk determined under the internal models method ('IMM') approach.

The analysis is prepared in accordance with the key drivers as specified in the standard template.

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 2018	19,223	33,362	51,527	23,682	127,794
2 Movement in risk levels	1,196	(4,927)	(7,829)	(8,637)	(20,197)
6 Foreign exchange movements	(6)	(11)	(17)	(8)	(42)
8 RWAs as at 30 Jun 2018	20,413	28,424	43,681	15,037	107,555

Market risk RWAs from internal models decreased by HK\$20,239m during the second quarter of the year mainly from movements in risk levels.

Credit risk

Credit quality of assets

Credit quality of exposures

Tables 13 and 14 analyse credit exposures between defaulted and

non-defaulted, and changes in defaulted loans and debt securities on a regulatory consolidation basis. The exposures covered in these tables include loans, debt securities and off-balance sheet exposures. Loans 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 13: CR1 – Credit quality of exposures

	a	b	c	d
	Gross carrying amounts of			
	Defaulted exposures	Non-defaulted exposures	Allowances/impairments	Net values
	HK\$m	HK\$m	HK\$m	HK\$m
1 Loans	19,215	4,200,549	15,706	4,204,058
2 Debt securities	–	1,342,780	52	1,342,728
3 Off-balance sheet exposures	1,640	2,853,918	686	2,854,872
4 Total at 30 Jun 2018	20,855	8,397,247	16,444	8,401,658

Table 14: CR2 – Changes in defaulted loans and debt securities

	a
	HK\$m
1 Defaulted loans and debt securities at 31 Dec 2017	18,321
2 Loans and debt securities that have defaulted since 31 Dec 2017	6,445
3 Returned to non-defaulted status	(1,135)
4 Amounts written off	(1,989)
5 Other changes	(2,427)
6 Defaulted loans and debt securities at 30 Jun 2018	19,215

1 Other changes include repayment and foreign exchange movements.

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 15: Impaired exposures and impairment allowances by industry

	Total gross loans and advances to customers	Gross impaired loans and advances	Specific provisions ¹	Collective provisions ¹
	HK\$m	HK\$m	HK\$m	HK\$m
At 30 Jun 2018				
Residential mortgages	895,870	1,891	(262)	(215)
Real estate	622,333	625	(87)	(413)
Wholesale and retail trade	463,554	4,975	(2,454)	(511)
Manufacturing	425,394	4,987	(3,192)	(479)

1 The classification of specific and collective provisions follows the treatment specified in the completion instruction of the HKMA Capital Adequacy Ratio – MA(BS)3 return. According to the completion instruction, impairment provisions classified into Stage 1 and Stage 2 under HKFRS 9 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 recognized in the profit or loss account as an impairment gain or loss, are treated as specific provisions.

Loans and advances to customers

Tables 16 to 19 analyse loans and advances to customers by geographical locations, impaired loans and advances to customers, loans and advances to customers by industry and overdue and rescheduled loans and advances on an accounting

consolidation basis, which is different from the basis of regulatory consolidation.

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 16: Loans and advances to customers by geographical location

	Hong Kong HK\$m	Rest of Asia-Pacific HK\$m	Other HK\$m	Total HK\$m
At 30 Jun 2018				
Gross loans and advances to customers	1,848,165	1,391,124	273,291	3,512,580

Impaired loans and advances to customers are those loans and advances where objective evidence exists that full repayment of principal or interest is considered unlikely. Specific provisions are made after taking into account the value of collateral in respect of

such loans and advances. 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 17: Impaired loans and advances to customers

	Hong Kong HK\$m	Rest of Asia- Pacific HK\$m	Total HK\$m
At 30 Jun 2018			
Impaired gross loans and advances	8,611	11,243	19,854
Non-impaired gross loans and advances	2,221,038	1,271,688	3,492,726
Total gross loans and advances to customers	2,229,649	1,282,931	3,512,580
Impairment allowances	(7,139)	(8,524)	(15,663)
– specific provisions	(3,676)	(5,542)	(9,218)
– collective provisions	(3,463)	(2,982)	(6,445)
Net loans and advances	2,222,510	1,274,407	3,496,917
Total impaired gross loans and advances as a percentage of total gross loans and advances to customers	0.4%	0.9%	0.6%
Total allowances as a percentage of total gross loans and advances	0.3%	0.7%	0.4%

¹ The classification of specific and collective provisions follows the treatment specified in the completion instruction of the HKMA Capital Adequacy Ratio – MA(BS)3 return. Details can be found in footnote 1 under table 15 of this document.

Tables 18 and 19 analyse the group's loans and advances to customers based on the categories contained in the 'Quarterly Analysis of Loans and Advances and Provisions – (MA(BS)2A)'

return required to be submitted to the HKMA by branches of the Bank and banking subsidiaries in Hong Kong.

Table 18: Loans and advances to customers by industry

	Gross Advances at 30 Jun 2018 HK\$m	Collateral and other security at 30 Jun 2018 HK\$m
Industrial, commercial and financial	1,002,626	473,060
– property development	168,778	46,844
– property investment	305,134	204,410
– financial concerns	102,872	65,548
– stockbrokers	13,862	2,662
– wholesale and retail trade	111,112	32,275
– manufacturing	56,092	12,030
– transport and transport equipment	52,555	30,735
– recreational activities	1,592	456
– information technology	32,908	1,236
– others	157,721	76,864
Individuals	711,553	616,092
– advances for the purchase of flats under the Hong Kong Government's Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	38,130	38,130
– advances for the purchase of other residential properties	518,537	518,537
– credit card advances	55,349	–
– others	99,537	59,425
Gross loans and advances to customers for use in Hong Kong	1,714,179	1,089,152
Trade Finance	186,264	32,345
Gross loans and advances to customers for use outside Hong Kong	1,612,137	564,587
Gross loans and advances to customers	3,512,580	1,686,084

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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 5 in the group's *Interim Report 2018*. The geographical information shown above 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.

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.

Table 19: Overdue and rescheduled loans and advances to customers

	Footnote	Hong Kong		Rest of Asia-Pacific		Total	
		HK\$m	% ¹	HK\$m	% ¹	HK\$m	% ¹
At 30 Jun 2018							
Gross amounts which have been overdue with respect to either principal or interest for:							
– more than three months but not more than six months		377	–	1,282	0.1	1,659	–
– more than six months but not more than one year		245	–	1,423	0.1	1,668	0.1
– more than one year		3,875	0.2	3,649	0.3	7,524	0.2
Total		4,497	0.2	6,354	0.5	10,851	0.3
Specific provisions made in respect of amounts overdue	2	(2,150)		(3,569)		(5,719)	
Fair value of collateral held in respect of amounts overdue		1,600		2,506		4,106	
Rescheduled loans and advances to customers		426	–	3,322	0.3	3,748	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 instruction of the HKMA Capital Adequacy Ratio – MA(BS)3 return. Details can be found in footnote 1 under table 15 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 20: Off-balance sheet exposures other than derivative transactions

	30 Jun 2018 HK\$m
Contract amounts	
Direct credit substitutes	60,356
Transaction-related contingencies	188,417
Trade-related contingencies	107,891
Forward asset purchases	6,304
Forward forward deposits placed	–
Commitments that are unconditionally cancellable without prior notice	2,137,601
Commitments which have an original maturity of not more than one year	71,408
Commitments which have an original maturity of more than one year	284,331
Total	2,856,308
Risk-weighted amounts	299,178

Credit risk under internal ratings-based approach

Table 21.1: 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	1,434,720	4,132	33.8	1,436,118	0.02	539	36.0	1.51	88,611	6	113	
0.15 to < 0.25	–	34	50.0	17	0.22	14	45.0	5.00	12	70	–	
0.25 to < 0.50	3,040	326	37.5	3,162	0.37	16	45.0	1.00	1,392	44	5	
0.50 to < 0.75	5,473	–	–	5,473	0.63	6	45.0	1.16	3,333	61	16	
0.75 to < 2.50	14,774	1,113	56.1	15,399	0.90	26	45.0	1.49	11,698	76	62	
2.50 to < 10.00	318	–	–	318	4.20	5	45.0	5.00	547	172	6	
10.00 to < 100.00	–	–	–	–	–	–	–	–	–	–	–	
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	
Sub-total at 30 Jun 2018	1,458,325	5,605	38.6	1,460,487	0.03	606	36.2	1.51	105,593	7	202	1,597
Portfolio (ii) – Bank												
0.00 to < 0.15	525,807	34,013	35.3	537,788	0.05	12,019	40.8	1.24	72,122	13	103	
0.15 to < 0.25	14,176	5,804	39.7	16,482	0.22	1,135	38.3	1.07	5,676	34	14	
0.25 to < 0.50	37,036	1,623	33.5	37,580	0.37	545	37.2	1.00	17,089	45	52	
0.50 to < 0.75	6,596	790	22.1	6,771	0.63	322	44.3	0.59	4,267	63	19	
0.75 to < 2.50	8,459	1,534	37.2	9,029	1.13	540	43.1	0.64	6,572	73	42	
2.50 to < 10.00	934	582	21.6	1,060	3.96	107	59.9	0.36	1,597	151	25	
10.00 to < 100.00	16	1	20.0	16	11.17	9	48.3	0.41	34	206	1	
100.00 (Default)	205	–	–	205	100.00	2	61.1	0.55	–	–	125	
Sub-total at 30 Jun 2018	593,229	44,347	35.4	608,931	0.13	14,679	40.6	1.20	107,357	18	381	1,931
Portfolio (iii) – Corporate – small- and - medium-sized corporates												
0.00 to < 0.15	19,536	17,835	36.6	26,304	0.10	855	31.6	2.53	4,629	18	9	
0.15 to < 0.25	30,965	13,577	35.0	35,712	0.22	1,094	28.6	2.41	8,838	25	22	
0.25 to < 0.50	46,185	15,475	26.7	50,881	0.37	1,463	27.9	2.68	16,244	32	53	
0.50 to < 0.75	47,644	17,322	26.4	51,642	0.63	1,537	27.5	2.26	18,936	37	90	
0.75 to < 2.50	102,696	45,440	24.2	113,682	1.51	4,890	31.0	1.95	62,554	55	530	
2.50 to < 10.00	14,622	7,770	24.3	16,509	3.79	964	35.1	1.54	13,355	81	223	
10.00 to < 100.00	649	461	20.6	744	17.21	53	43.0	0.79	1,049	141	50	
100.00 (Default)	903	167	59.5	1,002	100.00	55	51.3	1.64	–	–	514	
Sub-total at 30 Jun 2018	263,200	118,047	28.0	296,476	1.38	10,911	30.0	2.21	125,605	42	1,491	2,768
Portfolio (iv) – Corporate – other												
0.00 to < 0.15	634,863	606,708	31.9	828,191	0.08	19,025	46.6	1.95	193,185	23	321	
0.15 to < 0.25	193,858	213,974	32.1	262,536	0.22	5,022	45.2	1.70	101,839	39	261	
0.25 to < 0.50	166,670	191,851	27.3	218,724	0.37	4,014	41.8	1.65	102,078	47	338	
0.50 to < 0.75	166,684	145,296	28.2	207,661	0.63	3,416	43.3	1.67	131,859	63	566	
0.75 to < 2.50	377,389	300,148	25.6	453,654	1.42	9,018	40.2	1.50	354,782	78	2,536	
2.50 to < 10.00	67,900	77,173	22.0	84,916	4.00	2,532	45.7	1.21	105,952	125	1,560	
10.00 to < 100.00	5,001	2,531	23.8	5,604	16.11	225	50.8	0.91	12,376	221	457	
100.00 (Default)	11,323	1,339	55.0	12,059	100.00	502	50.7	1.70	–	–	6,111	
Sub-total at 30 Jun 2018	1,623,688	1,539,020	29.3	2,073,345	1.26	43,754	44.2	1.73	1,002,071	48	12,150	23,473

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Table 21.2: 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	24,402	363,172	34.9	151,266	0.06	3,813,552	100.8	–	5,930	4	93	
0.15 to < 0.25	2,869	16,120	46.1	10,305	0.22	251,272	100.0	–	1,207	12	23	
0.25 to < 0.50	10,051	32,373	36.8	21,973	0.39	410,921	95.5	–	3,832	17	82	
0.50 to < 0.75	7,385	8,202	48.2	11,340	0.58	118,338	96.7	–	2,757	24	64	
0.75 to < 2.50	20,024	38,547	37.7	34,545	1.36	409,297	96.0	–	15,865	46	451	
2.50 to < 10.00	11,349	6,355	55.3	14,863	4.58	156,273	90.6	–	15,325	103	622	
10.00 to < 100.00	4,709	1,702	53.8	5,625	20.74	63,759	87.3	–	10,941	195	1,036	
100.00 (Default)	151	48	1.7	152	100.00	2,354	97.9	–	172	114	135	
Sub-total at 30 Jun 2018	80,940	466,519	36.3	250,069	1.09	5,225,766	98.5	–	56,029	22	2,506	3,854
Portfolio (vi) – Retail – Residential mortgage exposures												
0.00 to < 0.15	351,146	27,674	62.4	368,413	0.07	179,153	10.4	–	52,235	14	25	
0.15 to < 0.25	113,787	3,470	55.4	115,710	0.20	46,576	10.4	–	14,257	12	24	
0.25 to < 0.50	108,881	1,166	63.2	109,618	0.34	56,089	10.2	–	16,387	15	38	
0.50 to < 0.75	70,082	915	73.3	70,753	0.61	32,272	15.5	–	13,730	19	72	
0.75 to < 2.50	105,075	2,411	86.3	107,156	1.34	55,344	10.4	–	19,857	19	149	
2.50 to < 10.00	29,754	78	101.8	29,833	4.65	12,247	11.5	–	10,813	36	161	
10.00 to < 100.00	3,574	840	106.6	4,469	17.28	8,251	11.9	–	2,894	65	95	
100.00 (Default)	2,413	13	–	2,413	100.00	2,904	12.2	–	–	–	295	
Sub-total at 30 Jun 2018	784,712	36,567	64.7	808,365	0.90	392,836	10.9	–	130,173	16	859	2,266
Portfolio (vii) – Retail – small business retail exposures												
0.00 to < 0.15	3,181	–	–	3,181	0.07	1,087	5.9	–	38	1	–	
0.15 to < 0.25	245	–	–	245	0.17	61	13.8	–	12	5	–	
0.25 to < 0.50	166	–	–	166	0.27	30	26.5	–	22	13	–	
0.50 to < 0.75	529	–	–	529	0.52	178	5.8	–	22	4	–	
0.75 to < 2.50	476	–	–	476	1.15	196	6.3	–	32	7	–	
2.50 to < 10.00	381	–	–	381	5.36	142	3.7	–	21	6	2	
10.00 to < 100.00	–	–	–	–	–	–	–	–	–	–	–	
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	
Sub-total at 30 Jun 2018	4,978	–	–	4,978	0.64	1,694	6.9	–	147	3	2	2
Portfolio (viii) – Other retail exposures to individuals												
0.00 to < 0.15	6,142	40,615	29.8	18,242	0.08	182,482	7.3	–	269	1	1	
0.15 to < 0.25	2,765	26,431	33.3	11,568	0.21	116,992	18.5	–	968	8	5	
0.25 to < 0.50	4,541	12,075	36.7	8,975	0.38	69,795	22.3	–	1,257	14	8	
0.50 to < 0.75	7,188	5,721	44.6	9,740	0.62	44,117	30.6	–	2,244	23	16	
0.75 to < 2.50	5,242	1,789	31.1	5,798	1.59	40,157	61.1	–	4,267	74	61	
2.50 to < 10.00	7,893	3,689	43.6	9,500	3.36	50,597	35.0	–	4,788	50	140	
10.00 to < 100.00	753	30	61.0	771	15.82	9,131	65.6	–	986	128	81	
100.00 (Default)	76	19	23.0	80	100.00	1,645	103.4	–	–	–	83	
Sub-total at 30 Jun 2018	34,600	90,369	33.3	64,674	1.16	514,916	24.6	–	14,779	23	395	486

Table 21.3: 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
	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
Total (sum of all portfolios) at 30 Jun 2018	4,843,672	2,300,474	31.5	5,567,325	0.76	6,205,162	38.3	1.61	1,541,754	28	17,986	36,377

¹ The average maturity is relevant to wholesale portfolios only.

Overall risk estimates of CCF, PD and LGD remained stable in the first half of 2018.

Table 22: CR10 – Specialised Lending under supervisory slotting criteria approach – Other than HVCRE

Supervisory Rating Grade	Remaining Maturity	a	b	c	d(i)	d(ii)	d(iv)	d(v)	e	f
		On-balance sheet exposure amount	Off-balance sheet exposure amount	SRW	EAD amount				RWAs	Expected loss amount
		HK\$m	HK\$m		PF	OF	IPRE	Total		
Strong [^]	Less than 2.5 years	24,662	2,075	50	2,169	–	23,200	25,369	12,685	–
Strong	Less than 2.5 years	5,062	1,283	70	1,180	–	4,336	5,516	3,861	22
Strong [^]	Equal to or more than 2.5 years	4,496	130	50	4,545	–	–	4,545	2,272	–
Strong	Equal to or more than 2.5 years	25,748	456	70	8,204	–	17,760	25,964	18,175	104
Good [^]	Less than 2.5 years	5,932	758	70	109	55	6,031	6,195	4,337	25
Good	Less than 2.5 years	3,988	563	90	–	–	4,177	4,177	3,760	34
Good [^]	Equal to or more than 2.5 years	4,194	118	70	4,242	–	–	4,242	2,969	17
Good	Equal to or more than 2.5 years	2,770	1,145	90	–	182	2,985	3,167	2,850	25
Satisfactory		4,533	12	115	3,063	–	1,475	4,538	5,219	127
Weak		823	17	250	829	–	–	829	2,073	66
Default		337	–	–	337	–	–	337	–	169
Total at 30 Jun 2018		82,545	6,557		24,678	237	59,964	84,879	58,201	589

[^] Use of preferential risk-weights.

Table 23: 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	76	300	76	228
All other equity exposures	6,294	400	6,294	25,176
Total at 30 Jun 2018	6,370		6,370	25,404

Credit risk under standardised approach
Table 24: 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	20,490	24	–	39	–	–	–	20,553
2	PSE exposures	88,309	14,717	–	12,970	–	4,532	–	120,528
2a	<i>Of which: domestic PSEs</i>	–	6,235	–	–	–	–	–	6,235
2b	<i>Of which: foreign PSEs</i>	88,309	8,482	–	12,970	–	4,532	–	114,293
4	Bank exposures	–	1,372	–	405	–	125	2	1,904
6	Corporate exposures	–	12,337	–	2,443	–	141,122	18	155,920
10	Regulatory retail exposures	–	–	–	–	59,051	–	–	59,051
11	Residential mortgage loans	17	–	115,255	6,607	8,535	6,117	–	136,531
12	Other exposures which are not past due exposures	–	–	–	–	–	17,983	–	17,983
13	Past due exposures	113	4	–	1	–	222	2,308	2,648
15	Total at 30 Jun 2018	108,929	28,454	115,255	22,465	67,586	170,101	2,328	515,118

Credit risk mitigation
Table 25: CR3 – Overview of recognised credit risk mitigation

	a	b1	b	d	f	
						Exposures unsecured: carrying amount HK\$m
1	Loans	2,014,031	2,190,027	1,735,722	453,949	356
2	Debt securities	1,315,824	26,904	–	26,904	–
3	Total at 30 Jun 2018	3,329,855	2,216,931	1,735,722	480,853	356
4	<i>Of which defaulted</i>	<i>5,484</i>	<i>5,429</i>	<i>5,297</i>	<i>132</i>	<i>–</i>

Total secured exposures increased from HK\$2,087,939m at 31 December 2017 to HK\$2,216,931m at 30 June 2018, driven by overall loan growth.

Table 26: 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
1	Corporate – Specialised lending under supervisory slotting criteria approach (project finance)	18,567	18,567
2	Corporate – Specialised lending under supervisory slotting criteria approach (object finance)	203	203
4	Corporate – Specialised lending under supervisory slotting criteria approach (income-producing real estate)	39,431	39,431
6	Corporate – Small- and medium-sized corporates	125,605	125,605
7	Corporate – Other corporates	1,002,094	1,002,071
8	Sovereigns	101,976	101,976
10	Multilateral development banks	3,617	3,617
11	Bank exposures – Banks	102,013	102,013
12	Bank exposures – Securities firms	5,344	5,344
14	Retail – Small business retail exposures	147	147
15	Retail – Residential mortgages to individuals	126,307	126,307
16	Retail – Residential mortgages to property-holding shell companies	3,866	3,866
17	Retail – Qualifying revolving retail exposures ('QRRE')	56,029	56,029
18	Retail – Other retail exposures to individuals	14,779	14,779
19	Equity – Equity exposures under market-based approach (simple risk-weight method)	25,404	25,404
26	Other – Cash items	2,285	2,285
27	Other – Other items	143,959	143,959
28	Total (under the IRB calculation approaches) at 30 Jun 2018	1,771,626	1,771,603

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 27: 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	507	1	20,478	75	24	–
2 PSE exposures	143,025	12,245	115,905	4,623	13,960	12
2a <i>Of which: domestic PSEs</i>	3,466	5,095	3,920	2,315	1,247	20
2b <i>Of which: foreign PSEs</i>	139,559	7,150	111,985	2,308	12,713	11
4 Bank exposures	1,419	685	1,752	152	604	32
5 Securities firm exposures	–	38	–	–	–	50
6 Corporate exposures	210,339	213,951	148,254	7,666	144,838	93
10 Regulatory retail exposures	62,471	261,287	58,511	540	44,288	75
11 Residential mortgage loans	134,518	11,695	133,961	2,570	56,162	41
12 Other exposures which are not past due exposures	61,262	42,196	16,587	1,396	17,983	100
13 Past due exposures	2,623	125	2,623	25	3,685	139
15 Total at 30 Jun 2018	616,164	542,223	498,071	17,047	281,544	55

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

	a	b	e	f
	Replacement cost ('RC')	PFE	Default risk exposure after CRM	RWAs
	HK\$m	HK\$m	HK\$m	HK\$m
1a CEM	16,929	38,014	54,916	15,923
2 IMM (CCR) approach			101,240	37,440
4 Comprehensive Approach (for SFTs)			59,392	7,045
6 Total at 30 Jun 2018				60,408

Table 29: 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		
1 (i) VaR (after application of multiplication factor if applicable)		3,523
2 (ii) Stressed VaR (after application of multiplication factor if applicable)		15,592
3 Netting sets for which CVA capital charge is calculated by the standardised CVA method	51,716	3,044
4 Total at 30 Jun 2018	51,716	22,159

Table 30: CCR6 – Credit-related derivatives contracts

	a	b
	Protection bought	Protection sold
	HK\$m	HK\$m
At 30 Jun 2018		
Notional amounts		
Single-name credit default swaps	142,748	138,795
Index credit default swaps	335,820	313,422
Total return swaps	6,241	745
Total notional amounts	484,809	452,962
Fair values		
Positive fair value (asset)	1,209	5,316
Negative fair value (liability)	(5,595)	(861)

Table 31: 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		
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Cash – domestic currency	–	3,610	–	1,070	42,351	52,081
Cash – other currencies	–	48,929	–	36,819	375,455	399,199
Domestic sovereign debt	–	1,829	–	–	–	5,334
Other sovereign debt	–	7,069	4,295	31,345	53,707	121,633
Corporate bonds	–	1,343	–	–	88,448	27,437
Equity securities	–	–	–	–	17,977	31,645
Other collateral	4,806	–	7,023	–	–	–
Total at 30 Jun 2018	4,806	62,780	11,318	69,234	577,938	637,329

Table 32: CCR8 – Exposures to CCPs

	a	b
	Exposure after CRM HK\$m	RWAs HK\$m
At 30 Jun 2018		
1 Exposures of the AI as clearing member or client to qualifying CCPs (total)		1,847
2 Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), of which:	6,478	130
3 (i) OTC derivative transactions	2,521	51
4 (ii) exchange-traded derivative contracts	3,957	79
7 Segregated initial margin	4,295	
8 Unsegregated initial margin	10,540	986
9 Funded default fund contributions	1,244	731
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:	4	4
14 (ii) exchange-traded derivative contracts	4	4
18 Unsegregated initial margin	30	30
19 Funded default fund contributions	24	304

Counterparty default risk under internal ratings-based approach

Table 33: 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	22,858	0.02	46	44.3	0.43	622	3
0.25 to < 0.50	42	0.37	1	45.0	1.00	19	44
0.75 to < 2.50	16	0.87	1	48.0	5.00	21	127
Sub-total at 30 Jun 2018	22,916	0.02	48	44.3	0.44	662	3
Portfolio (ii) – Bank							
0.00 to < 0.15	112,738	0.06	1,461	34.9	1.18	16,016	14
0.15 to < 0.25	4,181	0.22	228	45.3	1.53	1,943	46
0.25 to < 0.50	4,065	0.37	64	43.7	1.06	2,285	56
0.50 to < 0.75	1,588	0.63	32	44.8	1.01	1,167	74
0.75 to < 2.50	2,278	1.07	63	45.2	1.07	2,090	92
2.50 to < 10.00	78	5.06	4	45.0	1.00	104	132
Sub-total at 30 Jun 2018	124,928	0.10	1,852	35.9	1.18	23,605	19
Portfolio (iii) – Corporate							
0.00 to < 0.15	31,116	0.08	1,380	50.3	2.08	9,152	29
0.15 to < 0.25	8,082	0.22	500	51.1	1.29	3,497	43
0.25 to < 0.50	4,839	0.37	391	51.1	1.13	2,771	57
0.50 to < 0.75	3,711	0.63	372	51.2	1.46	2,904	78
0.75 to < 2.50	7,138	1.47	755	52.6	1.49	7,960	112
2.50 to < 10.00	1,136	4.93	224	55.2	1.70	1,939	171
10.00 to < 100.00	2	10.90	5	53.8	1.00	3	216
100.00 (Default)	–	100.00	1	48.0	1.00	–	–
Sub-total at 30 Jun 2018	56,024	0.44	3,628	50.9	1.76	28,226	50
Total (sum of all portfolios) at 30 Jun 2018	203,868	0.18	5,528	41.0	1.26	52,493	26

At 30 June 2018, the percentage of total RWAs covered by IRB models is 96% for sovereign exposures, 97% for bank exposures and 83% 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 26 to 28 of the Banking Disclosure Statement at 31 December 2017.

Counterparty default risk under standardised approach

Table 34: CCR3 – Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach

Risk Weight	Exposure class	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
1	Sovereign exposures	–	42	–	–	–	42
2	PSE exposures	1,391	1,465	549	–	–	3,405
2a	<i>Of which: domestic PSEs</i>	25	112	–	–	–	137
2b	<i>Of which: foreign PSEs</i>	1,366	1,353	549	–	–	3,268
4	Bank exposures	–	84	409	–	32	525
5	Securities firm exposures	–	–	36	–	–	36
6	Corporate exposures	–	–	76	–	6,376	6,452
8	Regulatory retail exposures	–	–	–	25	–	25
12	Total at 30 Jun 2018	1,391	1,591	1,070	25	6,408	10,485

Securitisation

Analysis of securitisation exposures

Table 35: SEC1 – Securitisation exposures in banking book

		a	c	g	i
		Acting as originator (excluding sponsor)		Acting as investor	
		Traditional HK\$m	Sub-total HK\$m	Traditional HK\$m	Sub-total HK\$m
At 30 Jun 2018					
1	Retail (total) – of which:	28,810	28,810	24,456	24,456
2	<i>residential mortgage</i>	28,810	28,810	7,083	7,083
3	<i>credit card</i>	–	–	5,210	5,210
4	<i>other retail exposures</i>	–	–	12,163	12,163
6	Wholesale (total) – of which:	–	–	7,950	7,950
9	<i>lease and receivables</i>	–	–	47	47
10	<i>other wholesale</i>	–	–	7,903	7,903

Table 36: SEC2 – Securitisation exposures in trading book

		g	i
		Acting as investor	
		Traditional HK\$m	Sub-total HK\$m
At 30 Jun 2018			
1	Retail (total) – of which:	5	5
2	<i>residential mortgage</i>	5	5

Table 37: SEC4 – Securitisation exposures in banking book and associated capital requirements – where AI acts as investor

		a	b	c	d	g	k	o
		Exposure values (by RW bands)				Exposure values (by regulatory approach)	RWAs (by regulatory approach)	Capital charges after cap
		≤20% RW HK\$m	>20% to 50% RW HK\$m	>50% to 100% RW HK\$m	>100% to <1250% RW HK\$m	SEC-ERBA HK\$m	SEC-ERBA HK\$m	SEC-ERBA HK\$m
At 30 Jun 2018								
1	Total exposures	21,349	2,915	1,396	6,746	32,406	15,305	1,224
2	Traditional securitisation	21,349	2,915	1,396	6,746	32,406	15,305	1,224
3	<i>Of which: securitisation</i>	21,349	2,915	1,396	6,746	32,406	15,305	1,224
4	<i>Of which: retail</i>	21,349	2,868	–	239	24,456	5,473	438
5	<i>Of which: wholesale</i>	–	47	1,396	6,507	7,950	9,832	786

Market risk

Market risk under standardised approach

Table 38: MR1 – Market risk under STM approach

		a
		RWAs HK\$m
Outright product exposures		
1	Interest rate exposures (general and specific risk)	793
2	Equity exposures (general and specific risk)	1,854
4	Commodity exposures	20
8	Securitisation exposures	61
9	Total at 30 Jun 2018	2,728

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 39: MR3 – IMM approach values for market risk exposures

		a
		HK\$m
At 30 Jun 2018		
VaR (10 day – one-tailed 99% confidence interval)		
1	Maximum Value	668
2	Average Value	511
3	Minimum Value	391
4	Period End	608
Stressed VaR (10 day – one-tailed 99% confidence interval)		
5	Maximum Value	916
6	Average Value	687
7	Minimum Value	538
8	Period End	713
Incremental risk charge (IRC) (99.9% confidence interval)		
9	Maximum Value	4,133
10	Average Value	3,569
11	Minimum Value	3,078
12	Period End	3,078

HBAP trading VaR at 30 June 2018 was higher than 31 December 2017 due to an increase in the interest rate trading VaR, which was driven by increased inventory positions.

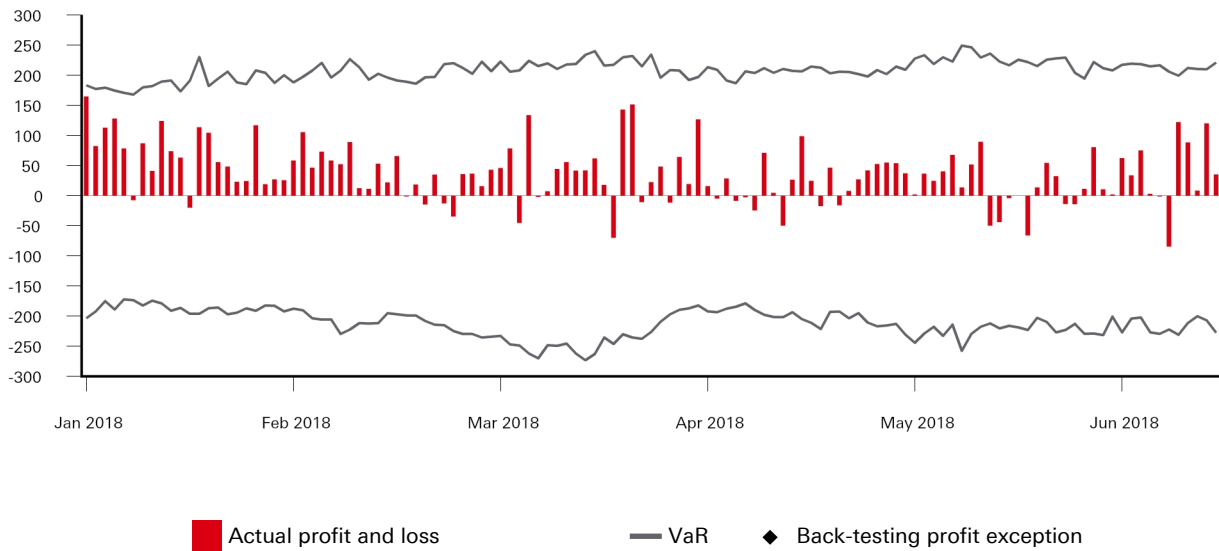
HBAP trading Stressed VaR at 30 June 2018 was lower than

31 December 2017 due to an increase in the diversification benefit across asset classes, driven by Stressed VaR scenario period change and overall changes in portfolio composition.

The period end trading IRC remained relatively unchanged.

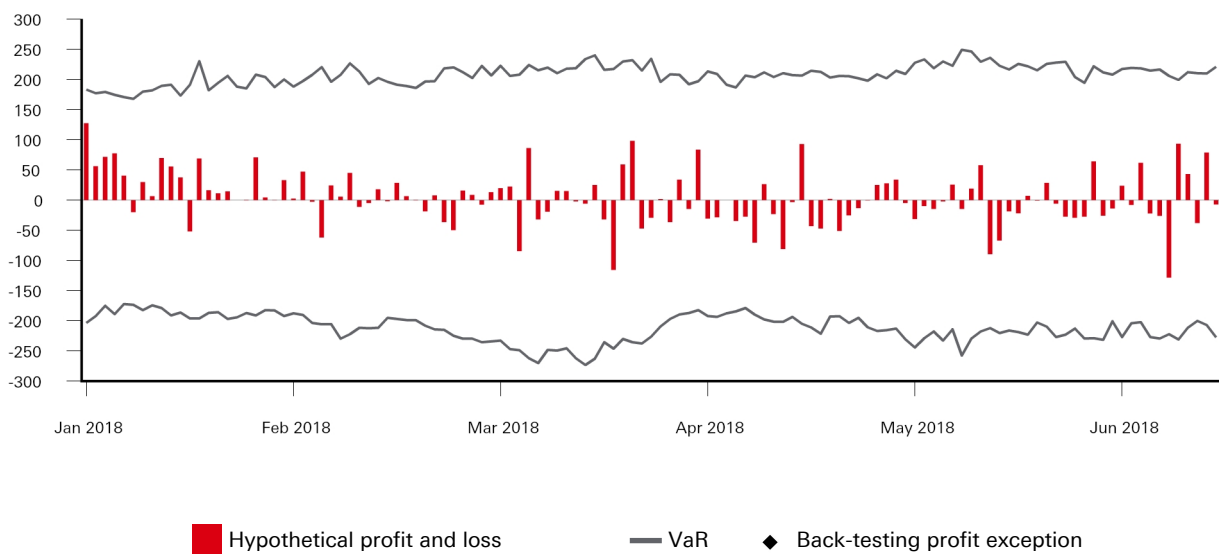
Table 40: MR4 – Comparison of VaR estimates with gains or losses

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



There is no VaR back-testing exception against actual profit and loss in the first half-year of 2018.

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



There is no VaR back-testing exception against hypothetical profit and loss in the first half-year of 2018.

Liquidity information

The Banking (Liquidity) Rules ('BLR') were introduced by the HKMA in 2014 and became effective from 1 January 2015. The group is required to calculate its Liquidity Coverage Ratio ('LCR') on a consolidated basis in accordance with rule 11(1) of the BLR. During 2018, the group is required to maintain an LCR of not less

than 90%, increasing by 10% to not less than 100% from 1 January 2019. Effective from 1 January 2018, the group is also required to calculate its Net Stable Funding Ratio ('NSFR') on a consolidated basis in accordance with rule 11(1) of the BLR and maintain an NSFR of not less than 100%.

The average LCRs for the period are as follows:

Table 41: Average liquidity coverage ratio

	Quarter ended	
	30 Jun 2018	31 Mar 2018
	%	%
Average liquidity coverage ratio	147.2	150.5

The liquidity position of the group remained strong in 2018. The average LCR decreased from 150.5% for the quarter ending 31 March 2018 to 147.2% for the quarter ending 30 June 2018, mainly as a result of the growth in loans and advances to customers.

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

Table 42: Total weighted amount of high-quality liquid assets

	Weighted amount (average value for the quarter ended)	
	30 Jun 2018 HK\$m	31 Mar 2018 HK\$m
Level 1 assets	1,380,232	1,417,496
Level 2A assets	67,862	67,163
Level 2B assets	7,062	12,589
Total weighted amount of HQLA	1,455,156	1,497,248

The NSFRs for the period are as follows:

Table 43: Net stable funding ratio

	Quarter ended	
	30 Jun 2018	31 Mar 2018
	%	%
Net stable funding ratio	146.3	144.8

The funding position of the group remained robust in 2018. The NSFR was 146.3% for the quarter ending 30 June 2018, highlighting a surplus of stable funding relative to the required stable funding requirement.

Interdependent assets and liabilities included in the group's NSFR are certificates of indebtedness held and legal tender notes issued.

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.

The group allows currency mismatches to provide some flexibility in managing the balance sheet structure and to carry out foreign exchange trading, on the basis that there is sufficient liquidity in the swap market to support currency conversion in periods of stress. The group sets limits on LCR by currency for all material currencies based on liquidity in the swap markets. These limits are approved and monitored by the 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 three-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 2017*.

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

		a	b	a	b
Number of data points used in calculating the average value of the LCR and related components set out in this table for the quarters ending on 30 June 2018 and 31 March 2018, was 73 and 72 respectively.		Quarter ended 30 Jun 2018		Quarter ended 31 Mar 2018	
		Unweighted value (average) HK\$m	Weighted value (average) HK\$m	Unweighted value (average) HK\$m	Weighted value (average) HK\$m
Basis of disclosure: consolidated					
A	HQLA				
1	Total HQLA		1,455,156		1,497,248
B	Cash outflows				
2	Retail deposits and small business funding, of which:	3,182,317	296,577	3,142,355	292,010
3	Stable retail deposits and stable small business funding	317,753	10,121	324,336	10,208
4	Less stable retail deposits and less stable small business funding	2,864,564	286,456	2,818,019	281,802
5	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the AI, of which:	2,172,753	1,062,649	2,215,499	1,076,239
6	Operational deposits	613,459	149,404	660,505	160,497
7	Unsecured wholesale funding (other than small business funding) not covered in row 6	1,556,498	910,449	1,552,015	912,763
8	Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period	2,796	2,796	2,979	2,979
9	Secured funding transactions (including securities swap transactions)		2,014		4,133
10	Additional requirements, of which:	522,060	168,339	533,421	183,799
11	Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements	120,002	119,977	134,410	134,357
12	Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions	1,039	1,039	679	679
13	Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)	401,019	47,323	398,332	48,763
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	173,910	173,910	185,222	185,222
15	Other contingent funding obligations (whether contractual or non-contractual)	2,554,978	16,335	2,592,040	16,592
16	Total cash outflows		1,719,824		1,757,995
C	Cash inflows				
17	Secured lending transactions (including securities swap transactions)	380,836	79,274	379,798	88,553
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	682,229	469,221	670,837	474,768
19	Other cash inflows	186,415	182,448	209,865	199,420
20	Total cash inflows	1,249,480	730,943	1,260,500	762,741
D	Liquidity coverage ratio (adjusted value)				
21	Total HQLA		1,455,156		1,497,248
22	Total net cash outflows		988,881		995,254
23	LCR (%)		147.2%		150.5%

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

	a	b	c	d	e					
						Quarter ended				
						30 Jun 2018				
	Unweighted value by residual maturity									
	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					
Basis of disclosure: consolidated										
	<i>Footnotes</i>									
E Available stable funding ('ASF') item										
1 Capital:	662,469	–	5,493	17,929	683,145					
2 <i>Regulatory capital</i>	662,469	–	5,493	12,399	677,615					
3 <i>Other capital instruments</i>	–	–	–	5,530	5,530					
4 Retail deposits and small business funding:		3,155,625	–	–	2,855,788					
5 <i>Stable deposits</i>		314,523	–	–	298,797					
6 <i>Less stable deposits</i>		2,841,102	–	–	2,556,991					
7 Wholesale funding:	–	2,565,344	35,480	190,047	1,094,032					
8 <i>Operational deposits</i>		601,490	–	–	300,745					
9 <i>Other wholesale funding</i>	–	1,963,854	35,480	190,047	793,287					
10 Liabilities with matching interdependent assets	280,524	–	–	–	–					
11 Other liabilities:	199,936	194,872	13,131	53,792	60,357					
12 <i>Net derivative liabilities</i>	–	–	–	–	–					
13 <i>All other funding and liabilities not included in the above categories</i>	199,936	194,872	13,131	53,792	60,537					
14 Total ASF					4,693,322					
F Required stable funding ('RSF') item										
15 Total HQLA for NSFR purposes		1,594,481			55,176					
17 Performing loans and securities:	221,965	1,921,613	387,676	2,309,900	2,753,581					
18 <i>Performing loans to financial institutions secured by Level 1 HQLA</i>	–	264,710	–	15,399	41,870					
19 <i>Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions</i>	13,543	533,903	46,972	176,530	293,644					
20 <i>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:</i>	109,058	1,023,134	256,457	1,113,425	1,648,476					
21 <i>With a risk-weight of less than or equal to 35% under the STC approach</i>	13	6,107	51	866	3,651					
22 <i>Performing residential mortgages, of which:</i>	–	17,626	18,189	847,139	594,254					
23 <i>With a risk-weight of less than or equal to 35% under the STC approach</i>	–	15,990	16,111	718,610	483,147					
24 <i>Securities that are not in default and do not qualify as HQLA, including exchange-traded equities</i>	99,364	82,240	66,058	157,407	175,337					
25 Assets with matching interdependent liabilities	280,524	–	–	–	–					
26 Other assets:	655,722	137,605	96	1,167	379,090					
27 <i>Physical traded commodities, including gold</i>	11,998	–	–	–	10,198					
28 <i>Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs</i>	34,878	–	–	–	29,647					
29 <i>Net derivative assets</i>	34,078	–	–	–	34,078					
30 <i>Total derivative liabilities before deduction of variation margin posted</i>	207,929	–	–	–	N/A					
31 <i>All other assets not included in the above categories</i>	366,839	137,605	96	1,167	305,167					
32 Off-balance sheet items			2,819,276		20,421					
33 Total RSF					3,208,268					
34 Net Stable Funding Ratio (%)					146.3					

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

		a	b	c	d	e	
		Quarter ended 31 Mar 2018					
		Unweighted value by residual maturity				Weighted amount HK\$m	
		No specified term to maturity	<6 months or repayable on demand	6 months to < 12 months	12 months or more		
Basis of disclosure: consolidated		Footnotes	HK\$m	HK\$m	HK\$m	HK\$m	
E	Available stable funding ('ASF') item						
1	Capital:		664,030	3,924	—	19,711	683,741
2	Regulatory capital		664,030	3,924	—	13,970	678,000
2a	Minority interests not covered by row 2		—	—	—	—	—
3	Other capital instruments		—	—	—	5,741	5,741
4	Retail deposits and small business funding:			3,225,935	—	—	2,919,497
5	Stable deposits			323,093	—	—	306,939
6	Less stable deposits			2,902,842	—	—	2,612,558
7	Wholesale funding:		—	2,507,553	37,214	188,787	1,085,240
8	Operational deposits			640,646	—	—	320,323
9	Other wholesale funding		—	1,866,907	37,214	188,787	764,917
10	Liabilities with matching interdependent assets		285,174	—	—	—	—
11	Other liabilities:		213,870	172,214	10,943	53,533	59,005
12	Net derivative liabilities		—	—	—	—	—
13	All other funding and liabilities not included in the above categories		213,870	172,214	10,943	53,533	59,005
14	Total ASF						4,747,483
F	Required stable funding ('RSF') item						
15	Total HQLA for NSFR purposes	¹		1,514,539			56,724
16	Deposits held at other financial institutions for operational purposes			—	—	—	—
17	Performing loans and securities:		228,463	1,901,169	368,507	2,403,818	2,808,438
18	Performing loans to financial institutions secured by Level 1 HQLA		—	253,495	—	35,636	60,986
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions		7,974	540,683	37,638	225,681	333,577
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:		104,955	998,731	251,354	1,110,442	1,628,926
21	With a risk-weight of less than or equal to 35% under the STC approach		8	9,017	54	848	5,091
22	Performing residential mortgages, of which:		—	15,205	15,267	833,842	582,960
23	With a risk-weight of less than or equal to 35% under the STC approach		—	13,743	13,558	705,205	472,034
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities		115,534	93,055	64,248	198,217	201,989
25	Assets with matching interdependent liabilities		285,174	—	—	—	—
26	Other assets:		715,384	131,308	117	1,044	393,294
27	Physical traded commodities, including gold		10,006	—	—	—	8,505
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		35,106	—	—	—	29,840
29	Net derivative assets		27,497	—	—	—	27,497
30	Total derivative liabilities before deduction of variation margin posted		223,381	—	—	—	N/A
31	All other assets not included in the above categories		419,394	131,308	117	1,044	327,452
32	Off-balance sheet items	¹			2,671,265		20,091
33	Total RSF						3,278,547
34	Net Stable Funding Ratio (%)						144.8

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

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 2018			
Types of counterparties			
1 Central government, central government-owned entities and their subsidiaries and joint ventures ('JVs')	218,198	13,070	231,268
2 Local governments, local government-owned entities and their subsidiaries and JVs	44,493	4,311	48,804
3 People's Republic of China ('PRC') nationals residing in mainland China or other entities incorporated in mainland China and their subsidiaries and JVs	362,945	53,855	416,800
4 Other entities of central government not reported in item 1 above	9,399	2,545	11,944
5 Other entities of local governments not reported in item 2 above	6,488	800	7,288
6 PRC nationals residing outside mainland China or entities incorporated outside mainland China where the credit is granted for use in mainland China	40,457	8,465	48,922
7 Other counterparties where the exposures are considered by the reporting institution to be non-bank mainland China exposures	48,946	2,969	51,915
Total	730,926	86,015	816,941
Total assets after provision	4,994,605		
On-balance sheet exposures as percentage of total assets	14.63%		

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 2018						
Developed countries	557,479	454,650	268,435	366,417	54	1,647,035
– of which: Japan	164,316	150,661	24,230	8,383	–	347,590
– of which: United States	34,657	178,379	88,154	123,914	–	425,104
Offshore centres	104,086	29,832	90,013	495,821	1,379	721,131
– of which: Hong Kong	65,854	2,075	48,082	300,038	1,367	417,416
Developing Asia and Pacific	468,747	83,596	74,932	396,547	62	1,023,884
– of which: mainland China	357,627	35,554	33,508	223,982	62	650,733

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 2018:

Table 48: Net structural foreign currency exposures

	Net structural position	
	LCYm	HK\$m
At 30 Jun 2018		
Renminbi	183,627	217,611

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 2018:

Table 49: Non-structural foreign currency positions

	United States dollars	Renminbi
	HK\$m	HK\$m
At 30 Jun 2018		
Spot assets	2,178,648	662,764
Spot liabilities	(2,387,617)	(645,940)
Forward purchases	11,324,160	1,899,917
Forward sales	(11,092,531)	(1,925,866)
Net options positions	1,534	(494)
Net long (net short) position	24,194	(9,619)

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
US\$m	Millions of United States dollars

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

C

CCF ¹	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
CF	Commodity finance
CRM	Credit risk mitigation/mitigant
CSA ¹	Credit Support Annex
CVA	Credit valuation adjustment

D

D-SIB	Domestic systemically important bank
DTAs	Deferred tax assets

E

EAD ¹	Exposure at default
EL ¹	Expected loss

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

HKAS	Hong Kong Accounting Standards
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 undertakings
HVCRE	High volatility commercial real estate

I

IMM ¹	Internal model method
IMM(CCR)	Internal models (counterparty credit risk)
IPRE	Income producing real estate
IRB ¹	Internal ratings-based approach
IRC ¹	Incremental risk charge
ISDA	International Swaps and Derivatives Association

J

JCCyB	Jurisdictional countercyclical capital buffer
JVs	Joint ventures

L

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
OF	Object finance
OTC ¹	Over-the-counter

P

PD ¹	Probability of default
PF	Project finance
PFE ¹	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
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
SRW	Supervisory risk-weight
STC	Standardised (credit risk) approach
STM	Standardised (market risk) approach
STO	Standardised (operational risk) approach
SVaR	Stressed Value at risk

T

T1	Tier 1
T2	Tier 2

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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