



**The Hongkong and Shanghai Banking
Corporation Limited**

**Interim Banking Disclosure Statement 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'). The Banking Disclosure Statement and the Regulatory Capital Instruments, 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 group has adopted the requirements of HKFRS 9 'Financial Instruments' relating to the presentation of gains and losses on financial liabilities designated at fair value from 1 January 2017. As a result, the effects of changes in those liabilities' credit risk are presented in other comprehensive income with the remaining effect presented, when required, in profit or loss. As permitted by the transitional requirements of HKFRS 9, comparatives have not been restated. Except as described above, the accounting policies applied by the group for this document are consistent with those described in Note 1 of the *Annual Report and Accounts 2016*, as are the methods of computation.

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 issued in January 2015. These disclosures are supplemented by specific additional requirements of the HKMA set out in the BDR.

According to the BDR, disclosure of comparative information is not required unless otherwise specified in the standard disclosure templates.

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.

Disclosure requirements covered in the Regulatory Capital Instruments document:

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

Capital and RWAs

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 Bank's *Annual Report and Accounts 2016*.

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 a regulator, 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 shown in the table below, the figures exclude deferred acquisition cost assets, as these are derecognised for consolidation purpose due to the recognition of the present value of in-force long-term insurance business ('PVIF') on long-term insurance contracts and investment contracts with discretionary participation features at group level.

At 30 June 2017, the PVIF asset of HK\$45,273m and the related deferred tax liability, however, are recognised at the consolidated group level only, and are therefore also not included in the asset or equity positions for the stand-alone entities shown below.

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 2017.

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 2017.

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 2017, the effect of this requirement is to reduce the amount of reserves which can be distributed to shareholders by HK\$25,638m.

There are no relevant capital shortfalls in any of the group's subsidiaries at 30 June 2017 which are not included in its consolidation group for regulatory purposes.

Table 1: List of subsidiaries outside the regulatory scope of consolidation

	At 30 Jun 2017		
	Total assets	Total equity	
	HK\$m	HK\$m	
HSBC Broking Futures (Hong Kong) Ltd	Futures broking	3,550	595
HSBC Broking Services (Asia) Ltd and its subsidiaries	Broking services	18,178	3,160
HSBC Corporate Advisory (Malaysia) Sdn Bhd	Financial services	9	8
HSBC Global Asset Management Holdings (Bahamas) Ltd	Asset management	126	125
HSBC Global Asset Management (Hong Kong) Ltd	Asset management	632	370
HSBC Investment Funds (Hong Kong) Ltd	Asset management	567	208
HSBC Global Asset Management (Japan) K.K.	Asset management	158	94
HSBC Global Asset Management (Singapore) Ltd	Asset management	86	58
HSBC Insurance (Asia-Pacific) Holdings Ltd and its subsidiaries	Insurance	381,092	27,998
HSBC InvestDirect (India) Ltd and its subsidiaries	Financial services	696	567
HSBC Securities (Asia) Ltd and its subsidiaries	Broking services	425	423
HSBC Securities (Japan) Ltd	Broking services	150,073	1,564
HSBC Securities (Singapore) Pte Ltd	Broking services	466	63
HSBC Securities Brokers (Asia) Ltd	Broking services	13,216	4,438
Hang Seng Futures Ltd	Futures broking	102	102
Hang Seng Insurance Co. Ltd and its subsidiaries	Insurance	126,645	10,016
Hang Seng Investment Management Ltd	Asset management	1,450	1,397
Hang Seng Investment Services Ltd	Investment services	9	9
Hang Seng Securities Ltd	Broking services	3,891	1,441
Hang Seng Qianhai Fund Management Co. Ltd	Asset management	197	190

The approaches used in calculating the group's regulatory capital and risk-weighted assets ('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 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.

Balance sheet reconciliation

The following tables together provide a reconciliation of the group's consolidated statement of financial position, as published in the *Interim Report 2017*, to the transition disclosures template in Table 4 of this document.

The following table sets out the group's consolidated statement of financial position based on the accounting scope of consolidation and the corresponding balances based on the regulatory scope of consolidation.

Table 2: Reconciliation of balance sheets – accounting to regulatory scope of consolidation

	At 30 Jun 2017	
	Balance sheet in published financial statements	Under regulatory scope of consolidation
	HK\$m	HK\$m
Assets		
Cash and sight balances at central banks	190,947	188,840
Items in the course of collection from other banks	33,324	33,324
Hong Kong Government certificates of indebtedness	249,364	249,364
Trading assets	496,921	474,534
Derivatives	312,617	313,053
Financial assets designated at fair value	116,188	260
Reverse repurchase agreements – non-trading	331,807	212,903
Placings with and advances to banks	433,610	419,700
Loans and advances to customers	3,126,518	3,122,461
Financial investments	1,640,003	1,308,435
Amounts due from Group companies	254,269	370,073
Investments in subsidiaries	–	15,795
Interests in associates and joint ventures	132,261	129,533
Goodwill and intangible assets	58,656	11,769
Property, plant and equipment	115,827	112,928
Deferred tax assets	1,743	1,704
Prepayments, accrued income and other assets	180,460	147,001
Total assets	7,674,515	7,111,677
Liabilities		
Hong Kong currency notes in circulation	249,364	249,364
Items in the course of transmission to other banks	44,375	44,375
Repurchase agreements – non-trading	58,149	58,149
Deposits by banks	181,425	180,795
Customer accounts	4,964,064	4,948,880
Trading liabilities	258,381	258,283
Derivatives	310,489	311,215
Financial liabilities designated at fair value	52,979	15,419
Debt securities in issue	28,349	28,349
Retirement benefit liabilities	3,450	3,450
Amounts due to Group companies	249,046	240,549
Accruals and deferred income, other liabilities and provisions	97,329	93,826
Liabilities under insurance contracts	415,236	–
Current tax liabilities	5,150	4,807
Deferred tax liabilities	23,198	15,330
Subordinated liabilities	4,034	4,034
Preference shares	21,009	20,904
Total liabilities	6,966,027	6,477,729
Equity		
Share capital	149,616	149,616
Other equity instruments	14,737	14,737
Other reserves	106,822	103,978
Retained profits	384,500	320,007
Total shareholders' equity	655,675	588,338
Non-controlling interests	52,813	45,610
Total equity	708,488	633,948
Total equity and liabilities	7,674,515	7,111,677

The following table expands the balance sheet under the regulatory scope of consolidation to show separately the capital components that are reported in the transition

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: Detailed reconciliation of balance sheets to transition disclosures template

	At 30 Jun 2017		Cross-referenced to Definition of Capital Components
	Balance sheet in published financial statements	Under regulatory scope of consolidation	
	HK\$m	HK\$m	
Assets			
Cash and sight balances at central banks	190,947	188,840	
Items in the course of collection from other banks	33,324	33,324	
Hong Kong Government certificates of indebtedness	249,364	249,364	
Trading assets	496,921	474,534	
<i>of which: significant capital investments in financial sector entities exceeding 10% threshold</i>		15	1
<i>of which: significant capital investments in financial sector entities</i>		11	2
Derivatives	312,617	313,053	
Financial assets designated at fair value	116,188	260	
Reverse repurchase agreements – non-trading	331,807	212,903	
Placings with and advances to banks	433,610	419,700	
Loans and advances to customers	3,126,518	3,122,461	
<i>of which: impairment allowances eligible for inclusion in Tier 2 capital</i>		2,418	3
Financial investments	1,640,003	1,308,435	
<i>of which: significant capital investments in financial sector entities exceeding 10% threshold</i>		630	4
Amounts due from Group companies	254,269	370,073	
<i>of which: significant capital investments in financial sector entities exceeding 10% threshold</i>		1,870	5
<i>of which: significant capital investments in financial sector entities</i>		3,772	6
Investments in subsidiaries	–	15,795	
<i>of which: significant capital investments in financial sector entities exceeding 10% threshold</i>		15,795	7
Interests in associates and joint ventures	132,261	129,533	
<i>of which: goodwill</i>		3,794	8
<i>of which: intangible assets</i>		22	9
<i>of which: significant capital investments in financial sector entities exceeding 10% threshold</i>		76,692	10
Goodwill and intangible assets	58,656	11,769	
<i>of which: goodwill</i>		5,124	11
<i>of which: intangible assets</i>		6,645	12
Property, plant and equipment	115,827	112,928	
Deferred tax assets	1,743	1,704	
<i>of which: deferred tax assets net of related tax liabilities</i>		1,800	13
<i>of which: deferred tax liabilities related to goodwill</i>		(71)	14
<i>of which: deferred tax liabilities related to intangible assets</i>		(25)	15
Prepayments, accrued income and other assets	180,460	147,001	
<i>of which: defined benefit pension fund net assets</i>		76	16
<i>of which: significant capital investments in financial sector entities exceeding 10% threshold</i>		1,979	17
Total assets	7,674,515	7,111,677	

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Table 3: Detailed reconciliation of balance sheets to transition disclosures template (continued)

	At 30 Jun 2017		Cross-referenced to Definition of Capital components
	Balance sheet in published financial statements	Under regulatory scope of consolidation	
	HK\$m	HK\$m	
Liabilities			
Hong Kong currency notes in circulation	249,364	249,364	
Items in the course of transmission to other banks	44,375	44,375	
Repurchase agreements – non-trading	58,149	58,149	
Deposits by banks	181,425	180,795	
Customer accounts	4,964,064	4,948,880	
Trading liabilities	258,381	258,283	
<i>of which: gains and losses due to changes in own credit risk on fair valued liabilities</i>		89	18
Derivatives	310,489	311,215	
<i>of which: gains and losses due to changes in own credit risk on fair valued liabilities</i>		315	19
Financial liabilities designated at fair value	52,979	15,419	
<i>of which: gains and losses due to changes in own credit risk on fair valued liabilities</i>		(251)	20
Debt securities in issue	28,349	28,349	
Retirement benefit liabilities	3,450	3,450	
Amounts due to Group companies	249,046	240,549	
<i>of which: qualifying Tier 2 capital instruments</i>		20,139	21
<i>of which: gains and losses due to changes in own credit risk on fair valued liabilities</i>		16	22
Accruals and deferred income, other liabilities and provisions	97,329	93,826	
Liabilities under insurance contracts	415,236	–	
Current tax liabilities	5,150	4,807	
Deferred tax liabilities	23,198	15,330	
<i>of which: deferred tax liabilities related to goodwill</i>		(21)	23
<i>of which: deferred tax liabilities related to intangibles</i>		(825)	24
<i>of which: deferred tax liabilities related to defined benefit pension fund net assets</i>		(8)	25
Subordinated liabilities	4,034	4,034	
<i>of which: portion eligible for Tier 2 capital instruments, subject to phase-out arrangements</i>		3,122	26
<i>of which: portion eligible for Tier 2 capital instruments issued by subsidiaries, subject to phase-out arrangements</i>		616	27
Preference shares	21,009	20,904	
<i>of which: portion eligible for AT1 capital instruments, subject to phase-out arrangements</i>		19,343	28
<i>of which: portion eligible for Tier 2 capital instruments, subject to phase-out arrangements</i>		1,561	29
Total liabilities	6,966,027	6,477,729	
Equity			
Share capital	149,616	149,616	
<i>of which: portion eligible for inclusion in CET1 capital</i>		148,162	30
<i>of which: revaluation reserve capitalisation issue</i>		1,454	31
Other equity instruments	14,737	14,737	
<i>of which: qualifying AT1 capital instruments</i>		14,737	32
Other reserves	106,822	103,978	33
<i>of which: fair value gains arising from revaluation of land and buildings</i>		57,138	34
<i>of which: cash flow hedging reserves</i>		(152)	35
<i>of which: valuation adjustment</i>		656	36
Retained profits	384,500	320,007	37
<i>of which: regulatory reserve for general banking risks</i>		25,638	38
<i>of which: regulatory reserve eligible for inclusion in Tier 2 capital</i>		12,979	39
<i>of which: fair value gains arising from revaluation of land and buildings</i>		4,568	40
<i>of which: valuation adjustment</i>		1,100	41
Total shareholders' equity	655,675	588,338	
Non-controlling interests	52,813	45,610	
<i>of which: portion allowable in CET1 capital</i>		23,732	42
<i>of which: portion allowable in AT1 capital</i>		1,529	43
<i>of which: portion in AT1 capital, subject to phase-out arrangements</i>		3,481	44
Total equity	708,488	633,948	
Total equity and liabilities	7,674,515	7,111,677	

Regulatory capital disclosures

The following table sets out the detailed composition of the group's regulatory capital using the transition disclosures

template, as specified by the HKMA. The table also shows those items that are currently benefiting from the Basel III transitional arrangements, and are consequently subject to the pre-Base III treatment, as set out in Schedule 4H to the BCR.

Table 4: Transition disclosures template

		At 30 Jun 2017		
		Component of regulatory capital	Amounts subject to pre-Base III treatment*	Cross-referenced to Table 3
		HK\$m	HK\$m	
Common equity tier 1 (CET1) capital: instruments and reserves				
1	Directly issued qualifying CET1 capital instruments plus any related share premium	148,162		30
2	Retained earnings	320,007		37
3	Disclosed reserves	103,978		33
4	Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)	Not applicable		
	Public sector capital injections grandfathered until 1 January 2018	Not applicable		
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)	23,732		42
6	CET1 capital before regulatory deductions	595,879		
CET1 capital: regulatory deductions				
7	Valuation adjustments	1,756		36+41
8	Goodwill (net of associated deferred tax liability)	8,826		8+11+14+23
9	Other intangible assets (net of associated deferred tax liability)	5,817	–	9+12+15+24
10	Deferred tax assets net of deferred tax liabilities	1,800		13
11	Cash flow hedge reserve	(152)		35
12	Excess of total EL amount over total eligible provisions under the IRB approach	–	–	
13	Gain-on-sale arising from securitisation transactions	–		
14	Gains and losses due to changes in own credit risk on fair valued liabilities	169	–	18+19+20+22
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	68	–	16+25
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	–	–	
17	Reciprocal cross-holdings in CET1 capital instruments	–	–	
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	–	
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)	78,667	18,314	1+4+5+7+10+17-45 ^t -46 ^t
20	Mortgage servicing rights (amount above 10% threshold)	Not applicable		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable		
22	Amount exceeding the 15% threshold	Not applicable		
23	<i>of which: significant investments in the common stock of financial sector entities</i>	Not applicable		
24	<i>of which: mortgage servicing rights</i>	Not applicable		
25	<i>of which: deferred tax assets arising from temporary differences</i>	Not applicable		
26	National specific regulatory adjustments applied to CET1 capital	87,344		
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	61,706		34+40
26b	Regulatory reserve for general banking risks	25,638		38
27	Regulatory deductions applied to CET1 capital due to insufficient Additional Tier 1 (AT1) capital and Tier 2 capital to cover deductions	–		
28	Total regulatory deductions to CET1 capital	184,295		
29	CET1 capital	411,584		
AT1 capital: instruments				
30	Qualifying AT1 capital instruments plus any related share premium	14,737		32
31	<i>of which: classified as equity under applicable accounting standards</i>	14,737		32
32	<i>of which: classified as liabilities under applicable accounting standards</i>	–		
33	Capital instruments subject to phase out arrangements from AT1 capital	19,343		28
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidated group)	5,010		43+44
35	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements</i>	3,481		44

^t Cross-referenced within Table 4.

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Table 4: Transition disclosures template (continued)

	At 30 Jun 2017		Cross-referenced to Table 3
	Component of regulatory capital	Amounts subject to pre-Basel III treatment*	
	HK\$m	HK\$m	
36 AT1 capital before regulatory deductions	39,090		
AT1 capital: regulatory deductions			
37 Investments in own AT1 capital instruments	—	—	
38 Reciprocal cross-holdings in AT1 capital instruments	—	—	
39 Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	—	—	
40 Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	—	—	
41 National specific regulatory adjustments applied to AT1 capital	9,157		
41a Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 1 capital	9,157		
vii <i>of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation</i>	9,157		45 [†]
42 Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	—		
43 Total regulatory deductions to AT1 capital	9,157		
44 AT1 capital	29,933		
45 Tier 1 capital (Tier 1 = CET1 + AT1)	441,517		
Tier 2 capital: instruments and provisions			
46 Qualifying Tier 2 capital instruments plus any related share premium	20,139		21
47 Capital instruments subject to phase out arrangements from Tier 2 capital	4,683		26+29
48 Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	616		27
49 <i>of which: capital instruments issued by subsidiaries subject to phase out arrangements</i>	616		27
50 Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	15,397		3+39
51 Tier 2 capital before regulatory deductions	40,835		
Tier 2 capital: regulatory deductions			
52 Investments in own Tier 2 capital instruments	—	—	
53 Reciprocal cross-holdings in Tier 2 capital instruments	—	—	
54 Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	—	—	
55 Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	3,783	—	2 + 6
56 National specific regulatory adjustments applied to Tier 2 capital	(19,265)		
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	(28,422)		(31+34+40)x45%
56b Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 2 capital	9,157		
vii <i>of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation</i>	9,157		46 [†]
57 Total regulatory deductions to Tier 2 capital	(15,482)		
58 Tier 2 capital	56,317		
59 Total capital (Total capital = Tier 1 + Tier 2)	497,834		
60 Total risk weighted assets	2,709,315		
Capital ratios (as a percentage of risk weighted assets)			
61 CET1 capital ratio	15.19%		
62 Tier 1 capital ratio	16.30%		
63 Total capital ratio	18.37%		
64 Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3A, or s.3B, as the case requires, of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	7.71%		
65 <i>of which: capital conservation buffer requirement</i>	1.25%		
66 <i>of which: bank specific countercyclical buffer requirement</i>	0.71%		
67 <i>of which: G-SIB or D-SIB buffer requirement</i>	1.25%		
68 CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3A, or s.3B, as the case requires, of the BCR	10.30%		

[†] Cross-referenced within Table 4.

Table 4: Transition disclosures template (continued)

		At 30 Jun 2017		Cross-referenced to Table 3
		Component of regulatory capital	Amounts subject to pre-BaseI III treatment*	
		HK\$m	HK\$m	
National minima (if different from Basel 3 minimum)				
69	National CET1 minimum ratio	Not applicable		
70	National Tier 1 minimum ratio	Not applicable		
71	National Total capital minimum ratio	Not applicable		
Amounts below the thresholds for deduction (before risk weighting)				
72	Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	14,127		
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	49,025		
74	Mortgage servicing rights (net of related tax liability)	Not applicable		
75	Deferred tax assets arising from temporary differences (net of related tax liability)	Not applicable		
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 basic approach and the standardised (credit risk) approach (prior to application of cap)	3,959		
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardised (credit risk) approach	3,417		
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	17,928		
79	Cap for inclusion of provisions in Tier 2 under the IRB approach	11,980		
Capital instruments subject to phase-out arrangements				
80	Current cap on CET1 capital instruments subject to phase out arrangements	Not applicable		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	Not applicable		
82	Current cap on AT1 capital instruments subject to phase out arrangements	25,785		
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	–		
84	Current cap on T2 capital instruments subject to phase out arrangements	22,788		
85	Amount excluded from T2 capital due to cap (excess over cap after redemptions and maturities)	–		

* This refers to the position under the BCR in force on 31 December 2012.

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Table 4: Transition disclosures template (continued)

Notes to the template:

Elements where a more conservative definition has been applied in the BCR relative to that set out in Basel III capital standards:

		At 30 Jun 2017	
		Hong Kong basis	Basel III basis
		HK\$m	HK\$m
10	Deferred tax assets net of deferred tax liabilities	1,800	48

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') that rely on future profitability 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 and other credit exposures to connected companies) under Basel III.

		At 30 Jun 2017	
		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)	96,981	95,111

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%/15% thresholds mentioned above is calculated based on the amount of CET1 capital determined under the BCR.

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 2017	
	Total amount	Amount recognised in regulatory capital HK\$m
CET1 capital instruments		
Ordinary shares:		
45,743,491,798 issued and fully paid ordinary shares	HK\$149,616m	148,162
AT1 capital instruments		
Floating rate perpetual subordinated loans, callable from 2019	US\$1,900m	14,737
Perpetual non-cumulative preference shares	US\$2,478m	19,343
Tier 2 capital instruments		
Perpetual cumulative preference shares	US\$200m	1,561
Primary capital undated floating rate notes	US\$400m	3,122
Subordinated loan due 2022	US\$300m	2,342
Subordinated loan due 2023	US\$500m	3,903
Subordinated loan due 2024, callable from 2019	US\$1,600m	12,489
Subordinated loan due 2025, callable from 2020	US\$180m	1,405
Fixed rate (5.05%) subordinated bonds due 2027, callable from 2022	MYR500m	616

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.

Capital ratios and buffer requirements

The following tables show the capital ratios and capital buffer requirements as contained in the 'Capital Adequacy Ratio' return required to be submitted to the HKMA on a consolidated basis under the requirements of section 3C(1) of the BCR.

Table 6: Capital ratios

	Footnotes	30 Jun 2017 %
CET1 capital ratio	1	15.2
Tier 1 capital ratio	2	16.3
Total capital ratio	3	18.4
		HK\$m
CET1 capital		411,584
Tier 1 capital		441,517
Total capital		497,834
Total RWAs	4	2,709,315

1 CET1 capital ratio equals CET1 capital divided by Total RWAs.

2 Tier 1 capital ratio equals Tier 1 capital divided by Total RWAs.

3 Total capital ratio equals Total capital divided by Total RWAs.

4 The total RWAs is after application of the scaling factor of 1.06.

Table 7: Capital buffer requirements

	30 Jun 2017 %
Capital conservation buffer ratio	1.3
Countercyclical capital buffer ratio	0.7
Higher loss absorbency ratio	1.3
Total	3.3

Countercyclical capital buffer ratio

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

At 30 June 2017, the applicable jurisdictional CCyB ('JCCyB') ratio in force in Hong Kong was 1.25%, as set by the HKMA. For the rest of the jurisdictions in which the Bank had private sector credit exposures, the applicable JCCyB ratios were either at 0% or there was not yet an announcement made by the corresponding regulators. The increase in CCyB ratio from 0.35% at 31 December 2016 to 0.71% at 30 June 2017 was mainly due to increase in the Hong Kong JCCyB ratio from 0.625% to 1.25% from 1 January 2017.

Table 8: Geographical breakdown of risk-weighted amounts (RWA) in relation to private sector credit exposures

		At 30 Jun 2017			
Jurisdiction (J)	Applicable JCCyB ratio in effect	Total RWA used in computation of CCyB ratio of AI	CCyB ratio of AI	CCyB amount of AI	
					%
1 Hong Kong SAR	1.25	1,065,996			
2 Mainland China	—	248,658			
3 Australia	—	88,092			
4 Bahamas	—	24			
5 Bangladesh	—	15,045			
6 Belgium	—	1			
7 Bermuda	—	117			
8 Brunei	—	1,853			
9 Canada	—	8			
10 Cayman Islands	—	732			
11 Chinese Taipei	—	32,794			
12 France	—	38			
13 Germany	—	61			
14 India	—	80,838			
15 Indonesia	—	58,080			
16 Japan	—	13,559			
17 Macau SAR	—	23,906			
18 Malaysia	—	70,928			
19 Maldives	—	913			
20 Mauritius	—	9,186			
21 Mongolia	—	287			
22 Netherlands	—	74			
23 New Zealand	—	10,834			
24 Philippines	—	8,760			
25 Singapore	—	96,003			
26 South Korea	—	16,550			
27 Sri Lanka	—	12,362			
28 Switzerland	—	5			
29 Thailand	—	15,830			
30 United Kingdom	—	76			
31 United States	—	182			
32 Vietnam	—	13,160			
Total		1,884,952	0.71	13,325	

Leverage ratio

The following table 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 9: Leverage ratio

	Footnotes	30 Jun 2017 %
Leverage ratio	1	6.1
Capital and leverage ratio exposure measure		HK\$m
Tier 1 capital		441,517
Total exposure measure		7,253,947

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

Table 10: Leverage ratio common disclosure template

		Leverage ratio framework
		30 Jun 2017 HK\$m
On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	5,940,133
2	Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	(194,737)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	5,745,396
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	72,668
5	Add-on amounts for PFE associated with all derivatives transactions	292,078
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	—
7	Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions (reported as negative amounts)	—
8	Less: Exempted CCP leg of client-cleared trade exposures (reported as negative amounts)	(1,716)
9	Adjusted effective notional amount of written credit derivatives	266,863
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives (reported as negative amounts)	(253,956)
11	Total derivative exposures (sum of lines 4 to 10)	375,937
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	575,924
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets (reported as negative amounts)	—
14	CCR exposure for SFT assets	12,143
15	Agent transaction exposures	—
16	Total securities financing transaction exposures (sum of lines 12 to 15)	588,067
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	2,669,105
18	Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts)	(2,124,558)
19	Off-balance sheet items (sum of lines 17 and 18)	544,547
Capital and total exposures		
20	Tier 1 capital	441,517
21	Total exposures (sum of lines 3, 11, 16 and 19)	7,253,947
Leverage ratio		
22	Basel III leverage ratio	6.09%

The leverage ratio was 6.09% at 30 June 2017, down from 6.34% at 31 December 2016. This was mainly due to an increase in exposure measure.

Table 11: Summary comparison table

Item		Leverage ratio framework
		30 Jun 2017 HK\$m
1	Total consolidated assets as per published financial statements	7,674,515
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(562,838)
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	–
4	Adjustments for derivative financial instruments	62,884
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	12,143
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	544,547
7	Other adjustments	(477,304)
8	Leverage ratio exposure	7,253,947

Other adjustments mainly represent the Hong Kong Government certificates of indebtedness and assets deducted in determining Basel III 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 RWAs.

Table 12: OV1 – Overview of RWA

	Footnotes	a	b	c
		RWA ¹		Minimum capital requirements
		30 Jun 2017 HK\$m	31 Mar 2017 HK\$m	30 Jun 2017 HK\$m
1	Credit risk for non-securitisation exposures	1,906,885	1,845,205	160,415
2	<i>Of which: standardised credit risk ('STC') approach</i>	268,212	241,058	21,457
3	<i>Of which: internal ratings-based ('IRB') approach</i>	1,638,673	1,604,147	138,958
4	Counterparty credit risk	154,795	158,386	12,793
5	<i>Of which: standardised approach for counterparty credit risk ('SA-CCR')</i>	81,890	83,934	6,919
7	Equity exposures in banking book under the market-based approach	28,099	27,416	2,383
11	Settlement risk	44	24	4
12	Securitisation exposures in banking book	9,183	8,940	779
13	<i>Of which: IRB(S) approach – ratings-based method</i>	9,183	8,940	779
16	Market risk	109,646	85,907	8,772
17	<i>Of which: standardised market risk ('STM') approach</i>	384	496	31
18	<i>Of which: internal models ('IMM') approach</i>	109,262	85,411	8,741
19	Operational risk	300,351	300,148	24,028
21	<i>Of which: standardised operational risk ('STO') approach</i>	300,351	300,148	24,028
23	Amounts below the thresholds for deduction (subject to 250% RW)	122,563	119,203	10,393
24a	Deduction to RWA	35,280	33,550	2,822
24b	<i>Of which: portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital</i>	542	394	43
24c	<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>	34,738	33,156	2,779
25	Total	2,596,286	2,511,679	216,745

¹ RWAs in this table are before the application of the 1.06 scaling factor, where applicable, following a clarification from the HKMA. Comparatives have been restated to align with the current period presentation.

² Prior to the implementation of SA-CCR, exposures reported here are under the mark-to-market method.

Credit risk for non-securitisation exposures

Total RWAs increased by HK\$61,680m in the second quarter of the year, including an increase of HK\$15,598m due to foreign currency translation differences. The remaining increase was mainly driven by corporate lending growth in Hong Kong and China.

Market risk

Overall market risk RWAs increased by HK\$23,739m in the second quarter of the year, driven by increased trading positions.

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 13: CR8 – RWA flow statements of credit risk exposures under IRB approach

	Footnotes	a
		HK\$m
1	1	1,604,147
2		22,244
3		1,092
5		(953)
7		12,143
9		1,638,673

¹ To align with the presentation in Table 12, RWAs in this table now exclude the 1.06 scaling factor and the opening position has been restated.

Credit risk RWAs under IRB approach increased by HK \$34,526m in the second quarter of the year, including an increase of HK\$12,143m due to foreign currency translation differences.

The increase in asset size by HK\$22,244m was principally a result of growth in corporate loan books in Hong Kong and China.

RWA flow statement for market risk

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

Table 14: MR2 – RWA flow statements 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 RWA HK\$m
1	14,930	18,770	38,927	12,784	85,411
2	(396)	7,048	7,450	6,371	20,473
3	–	–	2,888	94	2,982
6	69	87	181	59	396
8	14,603	25,905	49,446	19,308	109,262

Market risk RWAs arising from internal models increased by HK\$23,851m during the second quarter of the year mainly due to increase in trading positions.

Credit risk

Credit quality of assets

Table 15: 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	21,256	3,723,321	14,559	3,730,018
2	Debt securities	–	1,302,804	–	1,302,804
3	Off-balance sheet exposures	2,548	2,665,813	24	2,668,337
4	Total at 30 Jun 2017	23,804	7,691,938	14,583	7,701,159

1 Loans are generally referred to as any on-balance sheet indebtedness of an obligor included as credit risk for non-securitisation exposures, whilst cash items and non-financial assets are excluded.

Table 16: CR2 – Changes in defaulted loans and debt securities

		a
		HK\$m
1	Defaulted loans and debt securities at 31 Dec 2016	20,062
2	Loans and debt securities that have defaulted since 31 Dec 2016	6,904
3	Returned to non-defaulted status	(878)
4	Amounts written off	(2,132)
5	Other changes	(2,700)
6	Defaulted loans and debt securities at 30 Jun 2017	21,256

1 Other changes included repayment and foreign exchange movements.

The increase in defaulted loans in the first half of 2017 was mainly related to corporate loans in Hong Kong.

Credit risk under internal ratings-based approach

Table 17.1: CR6 – Credit risk exposures by portfolio and PD ranges – for IRB approach (Wholesale)

	a	b	c	d	e	f	g	h	i	j	k	l
Portfolio (i) – Sovereign	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	RWA	RWA density	Expected loss (EL)	Provisions
PD scale	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
0.00 to < 0.15	1,353,430	845	31.8	1,353,698	0.02	495	33.3	1.39	85,378	6	120	
0.15 to < 0.25	30,925	–	–	30,925	0.22	41	45.0	1.26	10,643	34	31	
0.25 to < 0.50	311	–	–	311	0.37	7	45.0	1.00	137	44	1	
0.50 to < 0.75	5,467	–	–	5,467	0.63	19	45.0	1.15	3,320	61	15	
0.75 to < 2.50	20,974	545	26.9	21,121	1.66	29	45.0	1.54	20,212	96	157	
2.50 to < 10.00	355	–	–	355	5.75	4	45.0	5.00	664	187	9	
10.00 to < 100.00	–	–	–	–	–	–	–	–	–	–	–	
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	
Sub-total at 30 Jun 2017	1,411,462	1,390	29.9	1,411,877	0.06	595	33.8	1.39	120,354	9	333	1,530
	a	b	c	d	e	f	g	h	i	j	k	l
Portfolio (ii) – Bank	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	RWA	RWA density	Expected loss (EL)	Provisions
PD scale	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
0.00 to < 0.15	488,518	40,909	39.1	504,485	0.05	12,188	40.7	1.20	67,690	13	100	
0.15 to < 0.25	24,035	4,480	33.1	25,520	0.22	1,018	42.8	0.82	8,824	35	24	
0.25 to < 0.50	25,444	1,980	33.4	26,104	0.37	999	42.4	0.80	13,174	50	41	
0.50 to < 0.75	3,789	169	15.9	3,816	0.63	325	46.5	0.97	2,703	71	11	
0.75 to < 2.50	6,926	1,516	22.4	7,266	1.40	600	45.5	0.63	6,023	83	46	
2.50 to < 10.00	1,340	1,172	31.3	1,707	3.81	155	54.3	0.45	2,395	140	36	
10.00 to < 100.00	169	34	64.9	191	16.28	38	47.8	0.24	442	231	15	
100.00 (Default)	258	–	–	258	100.00	3	62.0	0.65	–	–	160	
Sub-total at 30 Jun 2017	550,479	50,260	37.6	569,347	0.15	15,326	41.0	1.15	101,251	18	433	1,585
	a	b	c	d	e	f	g	h	i	j	k	l
Portfolio (iii) – Corporate – small-and-medium sized corporates	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	RWA	RWA density	Expected loss (EL)	Provisions
PD scale	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
0.00 to < 0.15	10,206	10,875	27.4	13,182	0.11	751	30.9	2.78	2,116	16	4	
0.15 to < 0.25	10,600	10,338	29.5	13,644	0.22	840	32.2	2.51	3,758	28	10	
0.25 to < 0.50	22,347	11,975	29.2	25,837	0.37	1,137	26.9	2.52	7,578	29	26	
0.50 to < 0.75	22,993	9,180	26.8	25,449	0.63	1,012	33.0	2.14	11,180	44	53	
0.75 to < 2.50	73,499	37,820	24.2	82,638	1.50	4,002	29.5	2.05	43,474	53	366	
2.50 to < 10.00	9,971	8,779	22.9	11,983	4.00	768	36.9	1.40	10,045	84	180	
10.00 to < 100.00	762	390	21.6	846	17.49	43	54.3	0.74	1,543	182	84	
100.00 (Default)	497	170	72.1	619	100.00	43	58.0	2.48	–	–	359	
Sub-total at 30 Jun 2017	150,875	89,527	26.1	174,198	1.60	8,596	30.7	2.17	79,694	46	1,082	2,316

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Table 17.1: CR6 – Credit risk exposures by portfolio and PD ranges – for IRB approach (Wholesale) (continued)

	a	b	c	d	e	f	g	h	i	j	k	l
Portfolio (iv) – Corporate – other	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	RWA	RWA density	Expected loss (EL)	Provisions
PD scale	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
0.00 to < 0.15	444,989	528,292	33.9	623,344	0.08	23,027	46.0	1.96	146,101	23	240	
0.15 to < 0.25	180,214	198,242	31.3	242,185	0.22	4,702	44.2	1.88	95,626	39	235	
0.25 to < 0.50	196,848	190,817	30.6	255,095	0.37	4,355	41.5	1.77	120,898	47	392	
0.50 to < 0.75	141,831	134,366	26.3	177,213	0.63	3,574	41.1	1.68	106,449	60	459	
0.75 to < 2.50	389,293	318,210	24.6	467,151	1.40	11,767	40.8	1.52	371,241	79	2,638	
2.50 to < 10.00	71,340	94,570	25.7	95,615	4.26	2,867	44.9	1.35	121,227	127	1,855	
10.00 to < 100.00	3,850	2,745	28.6	4,635	15.29	205	48.1	1.64	9,195	198	296	
100.00 (Default)	14,014	2,171	16.6	14,375	100.00	560	50.3	1.55	–	–	7,232	
Sub-total at 30 Jun 2017	1,442,379	1,469,413	29.8	1,879,613	1.53	51,057	43.4	1.75	970,737	52	13,347	27,397

Table 17.2: CR6 – Credit risk exposures by portfolio and PD ranges – for IRB approach (Retail)

	a	b	c	d	e	f	g	h	i	j	k	l
Portfolio (v) – Retail – qualifying revolving retail exposures	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	RWA	RWA density	Expected loss (EL)	Provisions
PD scale	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
0.00 to < 0.15	15,049	271,297	43.2	132,289	0.07	3,271,755	102.3	–	5,807	4	92	
0.15 to < 0.25	3,306	49,270	43.7	24,837	0.20	605,706	101.5	–	2,704	11	51	
0.25 to < 0.50	8,787	50,874	40.0	29,146	0.37	615,687	99.2	–	5,016	17	106	
0.50 to < 0.75	8,294	18,574	48.8	17,361	0.59	245,827	97.3	–	4,316	25	100	
0.75 to < 2.50	18,999	34,434	41.3	33,209	1.40	486,467	96.0	–	15,528	47	447	
2.50 to < 10.00	10,547	8,082	51.9	14,739	4.94	185,473	95.8	–	16,690	113	698	
10.00 to < 100.00	3,314	1,798	50.4	4,219	25.59	61,340	95.3	–	9,063	215	1,011	
100.00 (Default)	82	4	8.7	82	100.00	1,323	92.4	–	–	–	76	
Sub-total at 30 Jun 2017	68,378	434,333	43.2	255,882	1.06	5,473,578	100.2	–	59,124	23	2,581	1,478

	a	b	c	d	e	f	g	h	i	j	k	l
Portfolio (vi) – Retail – Residential mortgage exposures	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	RWA	RWA density	Expected loss (EL)	Provisions
PD scale	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
0.00 to < 0.15	317,153	26,867	64.9	334,593	0.07	177,048	10.5	–	41,569	12	24	
0.15 to < 0.25	101,249	3,480	55.7	103,186	0.20	44,438	10.6	–	10,722	10	22	
0.25 to < 0.50	100,572	1,553	63.5	101,558	0.36	55,908	10.2	–	12,665	12	37	
0.50 to < 0.75	61,005	429	100.1	61,434	0.61	30,474	17.5	–	11,955	19	66	
0.75 to < 2.50	106,956	1,981	86.2	108,664	1.33	57,914	10.4	–	18,240	17	151	
2.50 to < 10.00	32,826	93	98.0	32,917	4.70	13,711	11.0	–	11,494	35	172	
10.00 to < 100.00	3,361	753	99.8	4,113	16.49	8,148	11.8	–	2,599	63	82	
100.00 (Default)	2,390	10	–	2,390	100.00	3,309	13.2	–	–	–	316	
Sub-total at 30 Jun 2017	725,512	35,166	66.4	748,855	0.97	390,950	11.1	–	109,244	15	870	1,844

Table 17.2: CR6 – Credit risk exposures by portfolio and PD ranges – for IRB approach (Retail) (continued)

	a	b	c	d	e	f	g	h	i	j	k	l
Portfolio (vii) – Retail – small business retail exposures	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	RWA	RWA density	Expected loss (EL)	Provisions
	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
PD scale												
0.00 to < 0.15	3,386	–	–	3,386	0.07	1,154	5.5	–	37	1	–	
0.15 to < 0.25	467	–	–	467	0.17	135	15.6	–	27	6	–	
0.25 to < 0.50	77	–	–	77	0.43	15	23.8	–	12	16	–	
0.50 to < 0.75	369	–	–	369	0.58	141	0.8	–	2	1	–	
0.75 to < 2.50	482	–	–	482	1.23	205	5.5	–	29	6	–	
2.50 to < 10.00	520	–	–	520	5.30	174	7.7	–	61	12	3	
10.00 to < 100.00	–	–	–	–	–	–	–	–	–	–	–	
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	
Sub-total at 30 Jun 2017	5,301	–	–	5,301	0.74	1,824	6.5	–	168	3	3	–

	a	b	c	d	e	f	g	h	i	j	k	l
Portfolio (viii) – Other retail exposures to individuals	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	RWA	RWA density	Expected loss (EL)	Provisions
	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
PD scale												
0.00 to < 0.15	6,450	39,588	29.8	18,255	0.08	182,458	5.5	–	223	1	1	
0.15 to < 0.25	2,746	24,287	33.9	10,966	0.21	119,401	18.5	–	921	8	5	
0.25 to < 0.50	2,855	11,066	36.0	6,839	0.38	66,567	17.7	–	757	11	5	
0.50 to < 0.75	4,936	5,620	43.8	7,396	0.64	43,082	28.3	–	1,593	22	12	
0.75 to < 2.50	4,071	1,577	32.7	4,587	1.64	40,480	64.3	–	3,574	78	52	
2.50 to < 10.00	5,864	4,179	40.9	7,571	3.58	50,887	32.4	–	3,585	47	115	
10.00 to < 100.00	651	22	47.1	661	16.04	9,643	72.2	–	933	141	78	
100.00 (Default)	92	22	14.3	95	100.00	1,884	104.3	–	–	–	99	
Sub-total at 30 Jun 2017	27,665	86,361	33.2	56,370	1.17	514,402	21.8	–	11,586	21	367	535

Table 17.3: CR6 – Credit risk exposures by portfolio and PD ranges – for IRB approach (Total)

	a	b	c	d	e	f	g	h	i	j	k	l
Total (sum of all portfolios) At 30 Jun 2017	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	RWA	RWA density	Expected loss (EL)	Provisions
	HK\$m	HK\$m	%	HK\$m	%		%	years	HK\$m	%	HK\$m	HK\$m
Total (sum of all portfolios) At 30 Jun 2017	4,382,051	2,166,450	33.3	5,101,443	0.86	6,456,328	37.9	1.56	1,452,158	28	19,016	36,685

¹ The average maturity is relevant to wholesale portfolios only.

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Table 18: 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 HK\$m	Off-balance sheet exposure amount HK\$m	SRW %	EAD amount				RWA HK\$m	Expected loss amount HK\$m
					PF HK\$m	OF HK\$m	IPRE HK\$m	Total HK\$m		
Strong [^]	Less than 2.5 years	17,205	1,802	50%	1,993	–	16,039	18,032	9,016	–
Strong	Less than 2.5 years	8,687	1,704	70%	4,212	–	5,130	9,342	6,539	37
Strong [^]	Equal to or more than 2.5 years	3,694	1,428	50%	4,148	–	–	4,148	2,074	–
Strong	Equal to or more than 2.5 years	27,278	1,548	70%	6,142	–	21,680	27,822	19,475	111
Good [^]	Less than 2.5 years	4,146	1,014	70%	137	72	4,278	4,487	3,140	18
Good	Less than 2.5 years	4,639	1,433	90%	–	–	5,102	5,102	4,592	41
Good [^]	Equal to or more than 2.5 years	4,444	104	70%	4,481	–	–	4,481	3,136	18
Good	Equal to or more than 2.5 years	4,233	176	90%	–	219	4,065	4,284	3,856	34
Satisfactory		955	10	115%	331	–	628	959	1,102	27
Weak		1,203	77	250%	1,230	–	–	1,230	3,075	98
Default		260	–	0%	172	–	88	260	–	131
Total at 30 Jun 2017		76,744	9,296		22,846	291	57,010	80,147	56,005	515

[^] Use of preferential risk-weights.

Table 19: CR10 – Equity exposures under the simple risk-weight method

Categories	a	c	d	e
	On-balance sheet exposure amount HK\$m	SRW %	EAD amount HK\$m	RWA HK\$m
Publicly traded equity exposures	372	300%	372	1,116
All other equity exposures	6,746	400%	6,746	26,983
Total at 30 Jun 2017	7,118		7,118	28,099

Credit risk under standardised approach

Table 20: 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	22,157	16	–	11	–	–	–	22,184
2	PSE exposures	87,815	42,922	–	7,099	–	3,467	–	141,303
2a	Of which: domestic PSEs	–	9,154	–	–	–	–	–	9,154
2b	Of which: foreign PSEs	87,815	33,768	–	7,099	–	3,467	–	132,149
4	Bank exposures	–	985	–	941	–	165	1	2,092
6	Corporate exposures	–	14,622	–	4,363	–	126,447	229	145,661
10	Regulatory retail exposures	–	–	–	–	66,914	–	–	66,914
11	Residential mortgage loans	–	–	91,503	9,804	6,541	6,365	–	114,213
12	Other exposures which are not past due exposures	–	–	–	–	–	17,267	–	17,267
13	Past due exposures	172	2	–	2	–	318	2,601	3,095
15	Total at 30 Jun 2017	110,144	58,547	91,503	22,220	73,455	154,029	2,831	512,729

Credit risk mitigation

Table 21: CR3 – Overview of recognised credit risk mitigation

	a	b1	b	d	f	
	Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognised collateral	Exposures secured by recognised guarantees	Exposures secured by recognised credit derivative contracts	
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	
1	Loans	1,817,568	1,912,450	1,415,659	377,398	781
2	Debt securities	1,273,431	29,373	–	28,631	–
3	Total at 30 Jun 2017	3,090,999	1,941,823	1,415,659	406,029	781
4	<i>Of which: defaulted</i>	<i>5,912</i>	<i>6,166</i>	<i>5,656</i>	<i>123</i>	<i>–</i>

Table 22: CR7 – Effects on RWA of recognised credit derivative contracts used as recognised credit risk mitigation – for IRB approach

	a	b	
	Pre-credit derivatives RWA	Actual RWA	
	HK\$m	HK\$m	
1	Corporate – Specialised lending under supervisory slotting criteria approach (project finance)	17,005	17,005
2	Corporate – Specialised lending under supervisory slotting criteria approach (object finance)	247	247
4	Corporate – Specialised lending under supervisory slotting criteria approach (income-producing real estate)	38,753	38,753
6	Corporate – Small-and-medium sized corporates	79,694	79,694
7	Corporate – Other corporates	970,832	970,737
8	Sovereigns	115,176	115,176
10	Multilateral development banks	5,178	5,178
11	Bank exposures – Banks	97,324	97,324
12	Bank exposures – Securities firms	3,927	3,927
14	Retail – Small business retail exposures	168	168
15	Retail – Residential mortgages to individuals	105,303	105,303
16	Retail – Residential mortgages to property-holding shell companies	3,941	3,941
17	Retail – Qualifying revolving retail exposures (QRRE)	59,124	59,124
18	Retail – Other retail exposures to individuals	11,586	11,586
19	Equity – Equity exposures under market-based approach (simple risk-weight method)	28,099	28,099
26	Other – Cash items	2,108	2,108
27	Other – Other items	128,446	128,446
28	Total (under the IRB calculation approaches) at 30 Jun 2017	1,666,911	1,666,816

Table 23: 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		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	%
Exposure classes						
1	Sovereign exposures	1,452	1	22,078	106	8
2	PSE exposures	158,536	11,791	138,317	2,986	15,601
2a	<i>Of which: domestic PSEs</i>	<i>8,258</i>	<i>2,147</i>	<i>8,263</i>	<i>891</i>	<i>1,831</i>
2b	<i>Of which: foreign PSEs</i>	<i>150,278</i>	<i>9,644</i>	<i>130,054</i>	<i>2,095</i>	<i>13,770</i>
4	Bank exposures	714	154	2,027	65	834
5	Securities firm exposures	–	38	–	–	–
6	Corporate exposures	187,711	217,805	135,641	10,020	131,897
10	Regulatory retail exposures	70,407	215,836	66,271	643	50,185
11	Residential mortgage loans	111,060	14,567	111,002	3,211	48,199
12	Other exposures which are not past due exposures	48,448	28,067	15,690	1,577	17,267
13	Past due exposures	3,043	172	3,043	52	4,221
15	Total at 30 Jun 2017	581,371	488,431	494,069	18,660	268,212

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

		a	b	e	f
		Replacement cost (RC)	Potential future exposures (PFE)	Default risk exposure after CRM	RWA
	Footnotes	HK\$m	HK\$m	HK\$m	HK\$m
1	SA-CCR (for derivative contracts)	98,822	200,558	299,037	80,793
4	Comprehensive Approach (for SFTs)			95,333	9,359
6	Total at 30 Jun 2017				90,152

1 Prior to the implementation of SA-CCR, exposures reported here are under the mark-to-market method.

Table 25: CCR2 – CVA capital charge

	a	b
	EAD post CRM	RWA
	HK\$m	HK\$m
Netting sets for which CVA capital charge is calculated by the advanced CVA method		
3 Netting sets for which CVA capital charge is calculated by the standardised CVA method	269,579	61,904
4 Total at 30 Jun 2017	269,579	61,904

Table 26: CCR6 – Credit-related derivatives contracts

	a	b
	Protection bought	Protection sold
	HK\$m	HK\$m
At 30 Jun 2017		
Notional amounts		
Single-name credit default swaps	199,952	184,846
Index credit default swaps	79,828	79,113
Total return swaps	3,413	–
Total notional amounts	283,193	263,959
Fair values		
Positive fair value (asset)	109	3,906
Negative fair value (liability)	(4,032)	(52)

Table 27: CCR8 – Exposures to CCPs

	a	b
	Exposure after CRM HK\$m	RWA HK\$m
At 30 Jun 2017		
1 Exposures of the AI as clearing member or client to qualifying CCPs (total)		2,451
2 Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10), of which:	36,199	724
3 (i) OTC derivative transactions	32,540	651
4 (ii) exchange-traded derivative contracts	3,659	73
7 Segregated initial margin	4,381	
8 Unsegregated initial margin	7,293	341
9 Funded default fund contributions	1,230	1,386
11 Exposures of the AI as clearing member or client to non-qualifying CCPs (total)		288
12 Default risk exposures to non-qualifying CCPs (excluding items disclosed in rows 17 to 20), of which:	4	4
13 (i) OTC derivative transactions	–	–
14 (ii) exchange-traded derivative contracts	4	4
17 Segregated initial margin	–	
18 Unsegregated initial margin	27	27
19 Funded default fund contributions	21	257

Table 28: CCR5 – Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs)

	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			
	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated		
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m		
Cash – domestic currency	2,286	–	113	–	–	–	30,154	–	–	63,408		
Cash – other currencies	27,354	–	7,149	–	–	–	343,864	–	–	506,633		
Domestic sovereign debt	–	–	–	–	–	–	–	–	–	2,621		
Other sovereign debt	951	4,381	–	–	–	–	74,261	–	–	135,375		
Corporate bonds	–	–	58	–	–	–	199,072	–	–	20,030		
Equity securities	–	–	–	–	–	–	24,722	–	–	39,682		
Total at 30 Jun 2017	30,591	4,381	7,320	4,381	–	–	672,073	–	–	767,749		

Counterparty default risk under internal ratings-based approach

Table 29: 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
PD scale	EAD post-CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
At 30 Jun 2017	HK\$m	%		%	years	HK\$m	%
Portfolio (i) – Sovereign							
0.00 to < 0.15	27,584	0.04	44	44.1	0.43	1,772	6
0.15 to < 0.25	351	0.22	4	45.0	0.14	83	24
0.25 to < 0.50	–	–	–	–	–	–	–
0.50 to < 0.75	37	0.63	3	45.0	1.00	22	59
0.75 to < 2.50	18	1.76	2	45.5	1.70	19	102
2.50 to < 10.00	–	–	–	–	–	–	–
10.00 to < 100.00	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–
Sub-total	27,990	0.04	53	44.1	0.43	1,896	7
Portfolio (ii) – Bank							
0.00 to < 0.15	258,811	0.05	1,401	33.6	1.23	33,771	13
0.15 to < 0.25	23,947	0.22	135	39.6	1.68	10,463	44
0.25 to < 0.50	4,502	0.37	158	37.2	1.43	2,118	47
0.50 to < 0.75	623	0.63	27	32.8	1.41	319	51
0.75 to < 2.50	2,486	1.14	77	45.1	1.14	2,372	95
2.50 to < 10.00	221	5.44	6	44.7	1.04	300	136
10.00 to < 100.00	16	10.00	1	45.0	–	31	192
100.00 (Default)	11	100.00	3	45.5	1.01	–	–
Sub-total	290,617	0.09	1,808	34.2	1.27	49,374	17
Portfolio (iii) – Corporate							
0.00 to < 0.15	37,268	0.08	1,292	47.2	2.18	10,594	28
0.15 to < 0.25	8,317	0.22	470	49.4	1.67	4,121	50
0.25 to < 0.50	7,466	0.37	385	48.1	2.01	4,752	64
0.50 to < 0.75	2,612	0.63	319	49.7	1.76	2,019	77
0.75 to < 2.50	8,503	1.43	963	49.1	1.52	8,742	103
2.50 to < 10.00	1,321	4.12	259	54.0	1.85	2,043	155
10.00 to < 100.00	16	11.88	10	62.8	1.03	41	247
100.00 (Default)	10	100.00	7	53.5	1.42	–	–
Sub-total	65,513	0.43	3,705	48.1	1.99	32,312	49
Total (sum of all portfolios)	384,120	0.14	5,566	37.3	1.33	83,582	22

Counterparty default risk under standardised approach

Table 30: CCR3 – Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach

	a	c	e	f	g	k
Risk Weight	0%	20%	50%	75%	100%	Total default risk exposure after CRM
Exposure class	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
2 PSE exposures	1,167	1,934	707	–	2	3,810
2a Of which: domestic PSEs	–	351	–	–	–	351
2b Of which: foreign PSEs	1,167	1,583	707	–	2	3,459
4 Bank exposures	–	136	168	–	16	320
6 Corporate exposures	–	–	10	–	4,256	4,266
8 Regulatory retail exposures	–	–	–	47	–	47
12 Total at 30 Jun 2017	1,167	2,070	885	47	4,274	8,443

Securitisation

Analysis of securitisation exposures

Table 31: 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 2017				
1 Retail (total) – of which:	20,371	20,371	22,228	22,228
2 <i>residential mortgage</i>	20,371	20,371	5,309	5,309
3 <i>credit card</i>	–	–	5,513	5,513
4 <i>other retail exposures</i>	–	–	11,406	11,406
6 Wholesale (total) – of which:	–	–	9,104	9,104
9 <i>lease and receivables</i>	–	–	140	140
10 <i>other wholesale</i>	–	–	8,964	8,964

Table 32: SEC2 – Securitisation exposures in trading book

	g	i
	Acting as investor	
	Traditional HK\$m	Sub-total HK\$m
At 30 Jun 2017		
1 Retail (total) – of which:	5	5
2 <i>residential mortgage</i>	5	5

Table 33: SEC4 – Securitisation exposures in banking book and associated capital requirements – where AI acts as investor

	a	b	c	f	j	n
	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	IRB(S) RBM HK\$m	IRB(S) RBM HK\$m	IRB(S) RBM HK\$m
At 30 Jun 2017						
1 Total exposures	23,123	277	7,932	31,332	9,183	779
2 Traditional securitisation	23,123	277	7,932	31,332	9,183	779
3 <i>Of which: securitisation</i>	23,123	277	7,932	31,332	9,183	779
4 <i>Of which: retail</i>	21,890	–	338	22,228	1,882	160
5 <i>Of which: wholesale</i>	1,233	277	7,594	9,104	7,301	619

Market risk

Market risk under standardised approach

Table 34: MR1 – Market risk under STM approach

		a
		RWA HK\$m
Outright product exposures		
2	Equity exposures (general and specific risk)	259
4	Commodity exposures	68
Option exposures		
8	Securitisation exposures	57
9	Total at 30 Jun 2017	384

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 35: MR3 – IMM approach values for market risk exposures

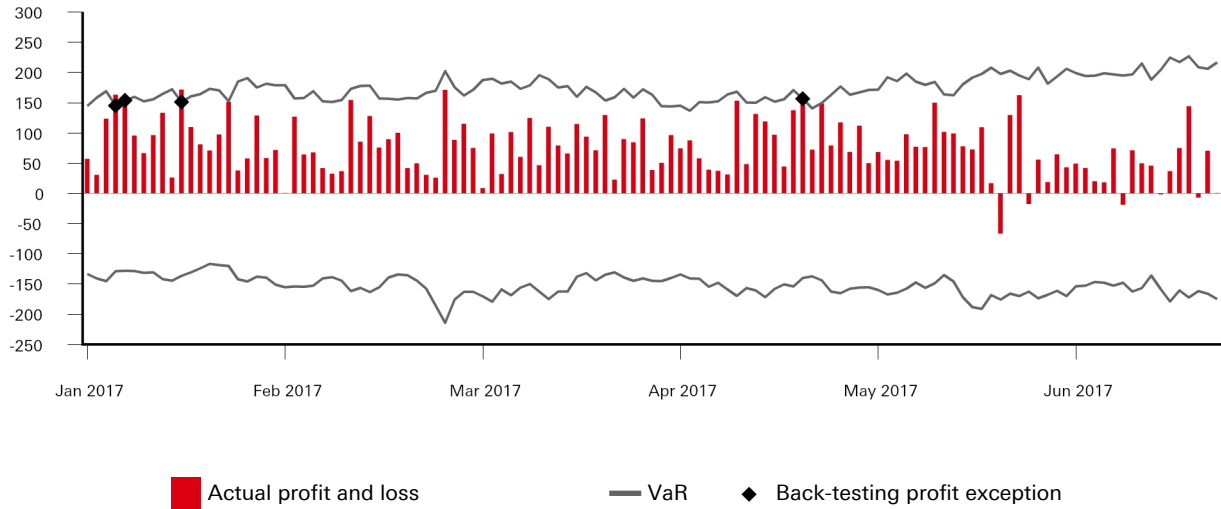
		a
		HK\$m
At 30 Jun 2017		
VaR (10 day – one-tailed 99% confidence interval)		
1	Maximum Value	562
2	Average Value	381
3	Minimum Value	278
4	Period End	423
Stressed VaR (10 day – one-tailed 99% confidence interval)		
5	Maximum Value	715
6	Average Value	448
7	Minimum Value	324
8	Period End	395
Incremental risk charge (IRC) (99.9% confidence interval)		
9	Maximum Value	4,156
10	Average Value	3,152
11	Minimum Value	2,397
12	Period End	3,946

The period ending trading VaR was higher due to an increase in the interest rate trading VaR. This was driven by portfolio composition changes in Renminbi and Hong Kong dollars.

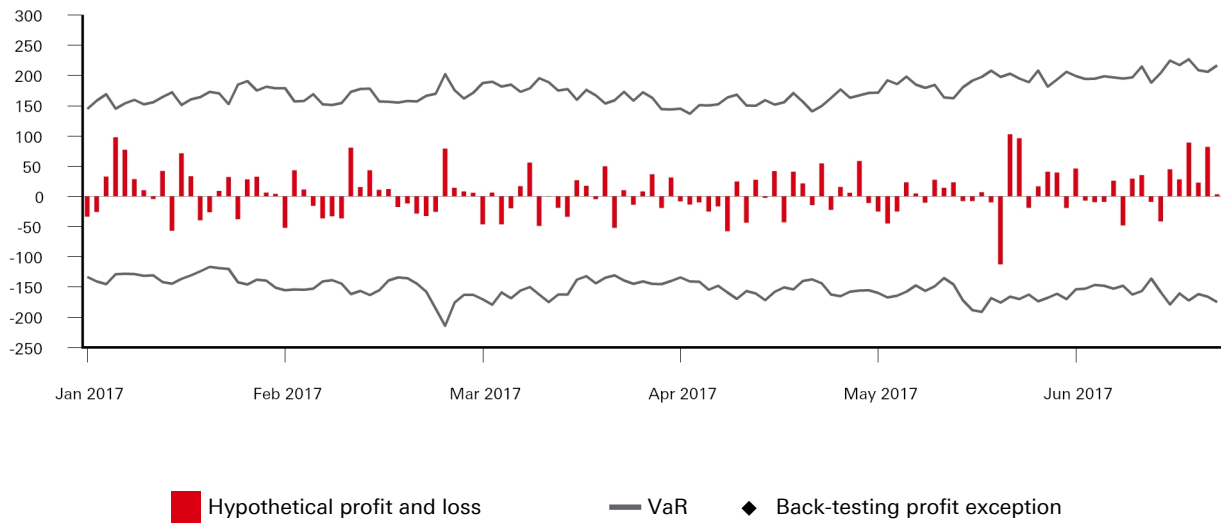
Stressed VaR (SVaR) was lower due to a change in SVaR scenario period where the emerging market currencies shock was smaller than the previous SVaR period. IRC was higher due to an increase in the bond inventory.

Table 36: MR4 – Comparison of VaR estimates with gains or losses

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



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



For the first half of 2017, there were four profit exceptions against actual profit and Loss. During January the gains were driven by sales credit and intraday position management of

cross-currency exposures on Asian currencies and Asian yield curve movements. In late April, the gain was driven by FFVA, CVA and DVA movements.

Other disclosures

Loans and advances to customers

Analysis of loans and advances to customers by geographical areas according to the location of counterparties, after recognised risk transfer:

Table 37: 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 2017				
Gross loans and advances to customers	1,523,074	1,323,578	294,425	3,141,077

The following analysis of the group's loans and advances to customers is 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 by banking subsidiaries in Hong Kong.

Table 38: Loans and advances to customers by industry

	Gross Advances at 30 Jun 2017 HK\$m	Collateral and other security at 30 Jun 2017 HK\$m
Industrial, commercial and financial	840,783	414,797
– property development	125,294	42,663
– property investment	275,206	193,393
– financial concerns	72,196	47,286
– stockbrokers	7,661	543
– wholesale and retail trade	97,734	26,861
– manufacturing	53,744	12,625
– transport and transport equipment	46,815	26,922
– recreational activities	1,181	291
– information technology	32,265	2,413
– others	128,687	61,800
Individuals	631,734	541,810
– advances for the purchase of flats under the Hong Kong Government's Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	34,497	34,497
– advances for the purchase of other residential properties	459,462	459,462
– credit card advances	52,363	–
– others	85,412	47,851
Gross loans and advances to customers for use in Hong Kong	1,472,517	956,607
Trade Finance	182,429	32,739
Gross loans and advances to customers for use outside Hong Kong	1,486,131	558,806
Gross loans and advances to customers	3,141,077	1,548,152

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 4 in the *Interim Report 2017*.

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.

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. Individually assessed allowances 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 39: Impaired loans and advances to customers

	Hong Kong HK\$m	Rest of Asia- Pacific HK\$m	Total HK\$m
At 30 Jun 2017			
Gross loans and advances to customers			
Individually assessed impaired gross loans and advances	8,374	10,037	18,411
Collectively assessed	1,973,432	1,149,234	3,122,666
– impaired loans and advances	696	1,128	1,824
– non-impaired loans and advances	1,972,736	1,148,106	3,120,842
Total gross loans and advances to customers	1,981,806	1,159,271	3,141,077
Impairment allowances	(6,824)	(7,735)	(14,559)
– individually assessed	(4,276)	(5,121)	(9,397)
– collectively assessed	(2,548)	(2,614)	(5,162)
Net loans and advances	1,974,982	1,151,536	3,126,518
Fair value of collateral which has been taken into account in respect of individually assessed impaired loan and advances to customers	3,044	4,798	7,842
Individually assessed impaired gross loans and advances as a percentage of 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%	0.5%

For individually assessed 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 40: Impairment allowances on loans and advances to customers

	Total gross loans and advances HK\$m	Gross impaired advances HK\$m	Individually assessed allowances HK\$m	Collectively assessed allowances HK\$m
At 30 Jun 2017				
Residential mortgages	812,767	2,196	(224)	(74)
Commercial, industrial and international trade	878,604	10,399	(6,422)	(2,530)
Other property-related lending	326,347	1,033	(400)	(136)

Impairment is assessed collectively to cover losses that have been incurred but have not yet been identified on loans subject

to individual assessment or for homogeneous groups of loans that are not considered individually significant.

Table 41: Overdue and rescheduled loans and advances to customers

	Hong Kong		Rest of Asia-Pacific		Total	
	HK\$m	% ¹	HK\$m	% ¹	HK\$m	% ¹
At 30 Jun 2017						
Gross amounts which have been overdue with respect to either principal or interest for:						
– more than three months but not more than six months	600	–	1,727	0.1	2,327	0.1
– more than six months but not more than one year	835	–	852	0.1	1,687	–
– more than one year	3,731	0.2	4,363	0.4	8,094	0.3
Total	5,166	0.2	6,942	0.6	12,108	0.4
Individually assessed impairment allowances made in respect of amounts overdue	(1,781)		(3,636)		(5,417)	
Fair value of collateral held in respect of amounts overdue	2,343		2,504		4,847	
Rescheduled loans and advances to customers	391	–	3,211	0.3	3,602	0.1

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

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'.

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 42: Mainland activities

		On-balance sheet exposure	Off-balance sheet exposure	Total exposures
		HK\$m	HK\$m	HK\$m
At 30 Jun 2017				
Types of counterparties				
1	Central government, central government-owned entities and their subsidiaries and joint ventures ('JVs')	198,385	12,091	210,476
2	Local governments, local government-owned entities and their subsidiaries and JVs	39,664	6,046	45,710
3	People's Republic of China ('PRC') nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	269,574	29,959	299,533
4	Other entities of central government not reported in item 1 above	7,801	759	8,560
5	Other entities of local governments not reported in item 2 above	4,280	1,161	5,441
6	PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	48,351	3,908	52,259
7	Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	73,067	18,204	91,271
Total		641,122	72,128	713,250
Total assets after provision		4,661,686		
On-balance sheet exposures as percentage of total assets				13.75%

International claims

The group's country risk exposures in the table below is 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 43: 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 2017						
Developed countries	640,496	328,534	285,991	296,434	142	1,551,597
– of which: United States	33,680	113,023	93,637	90,146	–	330,486
Offshore centres	86,857	15,158	75,592	404,253	1,028	582,888
– of which: Hong Kong SAR	57,035	2,276	41,359	251,992	1,023	353,685
Developing Asia and Pacific	427,400	99,546	62,864	391,104	80	980,994
– of which: Mainland China	327,108	61,762	23,042	225,246	80	637,238

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' in accordance with HKAS 39 'Financial Instruments: Recognition and Measurement'. For the purpose of the BCR, acceptances and endorsements are included in the capital adequacy calculation as if they were contingencies.

Table 44: Off – balance sheet exposures other than derivative transactions

	30 Jun 2017 HK\$m
Contract amounts	
Direct credit substitutes	67,413
Transaction-related contingencies	173,191
Trade-related contingencies	89,544
Forward asset purchases	6,223
Forward forward deposits placed	4,296
Commitments that are unconditionally cancellable without prior notice	2,021,460
Commitments which have an original maturity of not more than one year	75,206
Commitments which have an original maturity of more than one year	231,028
Total	2,668,361
Risk-weighted amounts	309,579

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 2017:

Table 45: Net structural foreign currency exposures

	Net structural position	
	LCYm	HK\$m
At 30 Jun 2017		
Renminbi	172,525	198,617

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 2017:

Table 46: Non – structural foreign currency positions

	United States dollars	Renminbi
	HK\$m	HK\$m
At 30 Jun 2017		
Spot assets	2,108,808	581,447
Spot liabilities	(2,231,988)	(549,014)
Forward purchases	11,231,941	2,724,369
Forward sales	(11,070,606)	(2,781,723)
Net options positions	(20,681)	21,834
Net long (net short) position	17,474	(3,087)

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

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 2017, the group is required to maintain a LCR of not less than 80%, increasing in steps of 10% each year to not less than 100% by January 2019.

The average LCRs for the period are as follows:

Table 47: Average liquidity coverage ratio

	Quarter ended	
	30 Jun 2017 %	31 Mar 2017 %
Average liquidity coverage ratio	162.1	170.9

The liquidity position of the group remained strong in the first half of 2017. The average LCR decreased from 193.6% for the quarter ending 30 June 2016 to 162.1% for the quarter ending 30 June 2017, 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 48: Total weighted amount of high quality liquid assets

	Weighted amount (average value for the quarter ended)	
	30 Jun 2017 HK\$m	31 Mar 2017 HK\$m
Level 1 assets	1,374,550	1,497,076
Level 2A assets	60,895	60,761
Level 2B assets	15,064	11,147
Total weighted amount of HQLA	1,450,509	1,568,984

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 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 Bank's *Annual Report and Accounts 2016*.

The following table sets out the required disclosure items under the LCR standard disclosure template as specified by the HKMA. The number of data points used in calculating the

average value of the LCR and related components, as set out in the following table for the quarters ending on 30 June 2017 and 31 March 2017, was 71 and 73 respectively.

Table 49: Liquidity coverage ratio standard disclosure template

	Quarter ended 30 Jun 2017		Quarter ended 31 Mar 2017	
	Unweighted amount (Average Value)	Weighted amount (Average Value)	Unweighted amount (Average Value)	Weighted amount (Average Value)
	HK\$m	HK\$m	HK\$m	HK\$m
A High quality liquid assets				
1 Total high quality liquid assets (HQLA)		1,450,509		1,568,984
B Cash outflows				
2 Retail deposits and small business funding, of which:	3,111,318	279,536	3,087,516	277,432
3 <i>Stable retail deposits and stable small business funding</i>	506,133	19,018	500,820	18,762
4 <i>Less stable retail deposits and less stable small business funding</i>	2,605,185	260,518	2,586,696	258,670
5 <i>Retail term deposits and small business term funding</i>	–	–	–	–
6 Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which:	2,051,089	1,054,163	2,029,476	1,056,837
7 <i>Operational deposits</i>	561,336	135,005	542,498	131,289
8 <i>Unsecured wholesale funding (other than small business funding) not covered in Row 7</i>	1,487,087	916,492	1,485,736	924,306
9 <i>Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period</i>	2,666	2,666	1,242	1,242
10 Secured funding transactions (including securities swap transactions)		8,640		7,997
11 Additional requirements, of which:	475,999	152,920	411,245	146,903
12 <i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	106,123	106,083	107,527	107,479
13 <i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	1,484	1,484	983	983
14 <i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	368,392	45,353	302,735	38,441
15 Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	141,139	141,139	162,755	162,755
16 Other contingent funding obligations (whether contractual or non-contractual)	2,408,357	14,940	2,318,962	14,022
17 Total cash outflows		1,651,338		1,665,946
C Cash inflows				
18 Secured lending transactions (including securities swap transactions)	367,410	80,264	377,725	91,713
19 Secured and unsecured loans (other than secured lending transactions covered in Row 18) and operational deposits placed at other financial institutions	745,511	546,132	715,336	540,249
20 Other cash inflows	162,781	129,589	135,327	111,223
21 Total cash inflows	1,275,702	755,985	1,228,388	743,185
D Liquidity coverage ratio (adjusted value)				
22 Total HQLA		1,450,509		1,568,984
23 Total net cash outflows		895,353		922,761
24 LCR (%)		162.1%		170.9%

Other information

Abbreviations

The following abbreviated terms are used throughout this document.

Currencies

HK\$m	Millions of Hong Kong dollars
HK\$bn	Billions (thousands of millions) of Hong Kong dollars
LCYm	Millions of local currency
A	
AI	Authorised institution
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
CDS ¹	Credit default swap
CEM	Current exposure method
CET1 ¹	Common equity tier 1
CF	Commodity finance
CIS	Collective investment scheme
CRC	Comprehensive risk charge
CRM	Credit risk mitigation/mitigant
CRR ¹	Customer risk rating
CSA	Credit Support Annex
CVA	Credit valuation adjustment
D	
D-SIB	Domestic systemically important bank
DTAs	Deferred tax assets
DVA	Debt valuation adjustment
E	
EAD ¹	Exposure at default
EL ¹	Expected loss
F	
FFVA	Full fair-value adjustment
G	
G-SIB	Global systemically important bank
Group	HSBC Holdings together with its subsidiary undertakings
H	
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
IPRE	Income producing real estate
IRB ¹	Internal ratings-based approach
IRB(S)	Internal ratings-based (securitisation) approach
IRC ¹	Incremental risk charge
ISDA	International Swaps and Derivatives Association

J

JCCyB	Jurisdictional countercyclical buffer
JVs	Joint ventures

L

LCR	Liquidity Coverage Ratio
LGD ¹	Loss given default

M

MDB ¹	Multilateral Development Bank
MSRs	Mortgage servicing rights

O

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
PVIF	Present value of in-force long-term insurance business

R

RBM	Ratings Based Method
RNIV	Risks not in VaR
RW	Risk-weight
RWA ¹	Risk-weighted asset/ risk-weighted amount

S

SA-CCR	Standardised approach for counterparty credit risk
SFM	Supervisory Formula Method
SFT ¹	Securities Financing Transactions
SIC	Securities Investment Conduit
SME	Small and medium-sized enterprise
SRW	Supervisory risk-weight
STC	Standardised (credit risk) approach
STC(S)	Standardised (securitisation) approach
STM	Standardised (market risk) approach
STO	Standardised (operational risk) approach
SVaR	Stressed VaR

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