HSBC BANK (SINGAPORE) LIMITED

(Incorporated in Singapore. Company Registration No. 201420624K)

Pillar 3 Disclosures

For the financial year ended 31 December 2019

Contents

1. Introduction

HSBC Bank (Singapore) Limited (the “Bank”) is incorporated in the Republic of Singapore and has its registered office at 21 Collyer Quay, #10-02 HSBC Building, Singapore 049320. The Bank operates in Singapore under a full banking license with an Asian Currency Unit and Qualifying Full Bank privileges granted by the Monetary Authority of Singapore (“MAS”).

The immediate holding company is The Hongkong and Shanghai Banking Corporation Limited, incorporated in the Hong Kong Special Administrative Region (“HBAP”).

The ultimate holding company is HSBC Holdings plc (“HSBC”), incorporated in England. The shares of HSBC Holdings plc are listed on the stock exchanges of Hong Kong, London, New York, Bermuda and Paris.

The disclosures in this document are made pursuant to Notice 637 “Notice on Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore” (“MAS Notice 637”), Notice 651 “Liquidity Coverage Ratio (“LCR”)” Disclosure and Notice 653 “Net Stable Funding Ratio (“NSFR”)” issued by the MAS.

These disclosures are governed by the Bank’s Pillar 3 Disclosure Policy which specifies the Bank’s Pillar 3 disclosure requirements, frequency of disclosure, medium of disclosure and the roles and responsibilities of various parties involved in the reporting. The process is reviewed periodically and approved by the Board.

The public disclosure document should be read in conjunction with the Bank's Financial Statement for the year ended 31 December 2019.

2. Overview of Key Prudential Regulatory Metrics

The following table provides an overview of key prudential regulatory metrics of the Bank (except Liquidity Coverage Ratio and Net Stable Funding Ratio which are at country level, as explained on page 35 and page 40 respectively).

		(a)	(b)	(c)	(d)	(e)
	(in S$ million)	**31 Dec 2019***	**30 Sep 2019^**	**30 Jun 2019^**	**31 Mar 2019^**	**31 Dec 2018***
	Available Capital (Amounts)					
1	CET1 Capital	1,637	1,635	1,633	1,629	1,625
2	Tier 1 Capital	1,637	1,635	1,633	1,629	1,625
3	Total Capital	1,694	1,697	1,693	1,691	1,692
	Risk Weighted Assets (Amounts)					
4	Total RWA	10,360	10,342	10,170	9,620	8,911
	Risk-based Capital Ratios as a Percentage of RWA					
5	CET 1 Ratio (%)	15.80%	15.81%	16.06%	16.93%	18.24%
6	Tier 1 Ratio (%)	15.80%	15.81%	16.06%	16.93%	18.24%
7	Total Capital Ratio (%)	16.35%	16.41%	16.65%	17.58%	18.99%

	(in S$ million)	(a) 31 Dec 2019*	(b) 30 Sep 2019^	(c) 30 Jun 2019^	(d) 31 Mar 2019^	(e) 31 Dec 2018*
	Additional CET 1 Buffer Requirements as a percentage of RWA					
8	Capital Conservation Buffer Requirement (2.5% from 2019) (%)	2.500%	2.500%	2.500%	2.500%	1.875%
9	Countercyclical Buffer Requirement (%)	0.024%	0.029%	0.029%	0.023%	0.019%
10	Bank G-SIB and/or D-SIB additional requirement (%)	-	-	-	-	-
11	Total of Bank CET1 Specific Buffer Requirement (%) (row 8 + row 9 + row 10)	2.524%	2.529%	2.529%	2.523%	1.894%
12	CET 1 Available after Meeting the Reporting Bank's Minimum Capital Requirements (%)	6.35%	6.41%	6.64%	7.57%	8.99%
	Leverage Ratio					
13	Total Leverage Ratio Exposure Measure	27,193	26,210	25,708	24,013	24,319
14	Leverage Ratio (%) (row 2/row 13)	6.02%	6.24%	6.35%	6.78%	6.68%
	Liquidity Coverage Ratio #					
15	Total High Quality Liquid Assets	23,629	22,472	21,430	21,721	20,352
16	Total Net Cash Outflow	10,922	10,650	9,292	10,863	10,652
17	Liquidity Coverage Ratio (%)	226%	215%	233%	202%	194%
	Net Stable Funding Ratio #					
18	Total Available Stable Funding	48,101	47,158	44,906	43,287	41,974
19	Total Required Stable Funding	33,569	32,598	31,304	30,452	28,607
20	Net Stable Funding Ratio (%)	143%	145%	143%	142%	147%

The Bank's capital requirements are based on the Standardised Approach in accordance with MAS Notice 637 and the Bank's Capital Adequacy Ratio ("CAR") for 31 December 2019 are computed on this basis.

As at 31 December 2019, the CAR ratios are above the stipulated regulatory requirements for Common Equity Tier 1 ("CET 1") CAR, Tier 1 CAR and Total CAR of 6.5%, 8% and 10% respectively.

Note
^ Unaudited
** Audited*
 # This refers to country level ratio for all currency. LCR is calculated on an average basis for that quarter. NSFR is calculated on a spot basis.

A capital conservation buffer ("CCB") of 2.5% and a countercyclical buffer ("CCyB") of up to 2.5% is phased in from 2016 to 2019. The CCB was 0.625% on 1 January 2016 and increased by 0.625% each year to reach 2.5% on 1 January 2019. The CCyB is the weighted average of the country-specific CCyB requirements that are being applied by national authorities in jurisdictions to which the bank has private sector credit exposures. The effective country-specific CCyB requirement for Hong Kong and United Kingdom was 2% and 1% respectively, and the applicable weighting for HK and UK was 0.87% and 0.70% respectively.

3. Capital Structure and Capital Adequacy

3.1 Capital Management

The Bank's approach to capital management is driven by its strategic and organisational requirements, taking into account the regulatory, economic and commercial environment. The Bank aims to maintain a strong capital base to support its planned business growth and to meet its regulatory capital requirements at all times.

The Bank's policy on capital management is underpinned by a capital managem0ent framework and the internal capital adequacy assessment process ('ICAAP'). The Bank's capital management process culminates in the annual capital plan, which is approved by the Board of Directors. The plan is drawn up with the objective of maintaining both an appropriate amount of capital and an optimal mix between the different components of capital. In accordance with the Capital Management Framework, capital generated in excess of planned requirements is returned to the immediate holding company, normally by way of dividends.

The Bank conducts an internal capital adequacy assessment process to determine a forward-looking assessment of its capital requirements incorporating its business strategy, risk profile, risk appetite and capital plan. Stress testing is used to assess the internal capital adequacy requirements and the internal capital planning buffers. The ICAAP is approved by the Board of Directors.

Pursuant to section 9 of the Banking Act of Singapore, the Bank is required to maintain paid-up capital and capital funds of not less than S$1,500,000,000.

The Bank's CET1 and Tier 1 capital is the aggregate of its paid-up share capital and reserves which comprises of retained earnings, property revaluation reserve and other reserves.

For additional information on the Bank's capital requirements, please refer to Note 32 of the Bank's Financial Statements.

3.2 Geographical Distribution of Credit Exposures Used in the Countercyclical Capital Buffer

S$ million	(a)	(b)	(c)	(d)
Geographical Breakdown	**Country-Specific Countercyclical Buffer Requirement**	**RWA for Private Sector Credit Exposures Used in the Computation of the Countercyclical Buffer**	**Bank-Specific Countercyclical Buffer Requirement**	**Countercyclical Buffer Amount**
Hong Kong	2.000%	76		
United Kingdom	1.000%	60		
Others		8,565		
Total		**8,701**	**0.02%**	**-**

The countercyclical capital buffer is calculated as the weighted average of the buffers in effect in the jurisdictions to which the Bank has private sector credit exposures, subject to the relevant transitional caps set out in MAS637. The Bank attributes its private sector credit exposures to jurisdictions based on the jurisdiction of each obligor or, if applicable, its guarantor. The determination of an obligor's jurisdiction of risk is based on the look-through approach taking into consideration factors such as economic activity and availability of parental support.

3.3 Risk Management

HSBC Group formulates high-level risk management policies for HSBC Group entities worldwide. HSBC's risk management policy is designed to identify and analyse these risks, set appropriate risk limits and controls and to monitor the risks and limits continually by means of reliable and up-to-date administrative and information systems. HSBC continually modifies and enhances its risk management policies and systems to reflect changes in markets and products.

Further details on the Bank's risk management can be found in Note 32 of the Bank's Financial Statements.

4. Composition of Regulatory Capital

The following disclosures are pursuant to the requirements of MAS Notice 637.

4.1 Reconciliation of Regulatory Capital to Balance Sheet

	31 Dec 2019 Balance Sheet as per Financial Statements S$ million	Under Regulatory Scope of Consolidation S$ million	Reference to Section 4.2
Assets			
Cash and balances with central banks	527		
Singapore government treasury bills and securities	3,464		
Other government treasury bills and securities	723		
Derivative assets	13		
Balance and placements with, and loans to, banks	57		
Loans and advances to customers	14,758		
of which: Provisions eligible for inclusion in T2 Capital		57	A
Amount due from immediate holding company	94		
Amount due from related corporations	6,307		
Other assets	125		
Property, plant and equipment	115		
Intangible assets	3	(2)	B
Total Assets	**26,186**		
Liabilities			
Derivative liabilities	17		
Deposits and balances of banks	37		
Deposits of non-bank customers	21,074		
Amounts due to immediate holding company	13		
Amounts due to related corporations	3,016		
Other liabilities	173		
Current tax liabilities	34		
Deferred taxation	1		
Total Liabilities	**24,365**		
NET ASSETS	**1,821**		
Shareholders' Equity			
Share capital	1,530	1,530	C
Reserves	66	31	D
Accumulated profits	225	78	E
Valuation adjustments	-	-	F
Total Equity	**1,821**		

4.2 Capital Adequacy and Reconciliation of Regulatory Capital to the Balance Sheet

The following disclosure is made in accordance with the template prescribed in MAS Notice 637 Annexure 11B. The column "31 Dec 2019 Amount" shows the amounts used in the computation of regulatory capital and CAR.

The alphabetic cross-references in the column "Cross Reference to Section 4.1" relates to the reconciliation of Regulatory Capital to the balance sheet disclosed in Note 4.1.

MAS Notice 637 specifies the computation of provisions (also referred to as "allowances" in this document") that may be recognised under Tier 2 capital. Under the standardised approach for credit risk, general allowances are eligible, subject to a cap of 1.25% of credit risk-weighted assets.

		31 Dec 2019 Amount S$ million	Cross Reference to Section 4.1
Common Equity Tier 1 Capital: Instruments and Reserves			
1	Paid-up ordinary shares and share premium (if applicable)	1,530	C
2	Retained earnings	78	E
3#	Accumulated other comprehensive income and other disclosed reserves	31	D
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	
5	Minority interest that meets criteria for inclusion	-	
6	**Common Equity Tier 1 capital before regulatory adjustments**	**1,639**	
Common Equity Tier 1 Capital: Regulatory Adjustments			
7	Valuation adjustment pursuant to Part VIII of MAS Notice 637	-	F
8	Goodwill, net of associated deferred tax liability	-	
9#	Intangible assets, net of associated deferred tax liability	(2)	B
10#	Deferred tax assets that rely on future profitability	-	
11	Cash flow hedge reserve	-	
12	Shortfall of TEP relative to EL under IRBA	-	
13	Increase in equity capital resulting from securitisation transactions	-	
14	Unrealised fair value gains/losses on financial liabilities and derivative liabilities arising from changes in own credit risk	-	
15	Defined benefit pension fund assets, net of associated deferred tax liability	-	
16	Investments in own shares	-	
17	Reciprocal cross-holdings in ordinary shares of financial institutions	-	
18	Investments in ordinary shares of unconsolidated financial institutions in which Reporting Bank does not hold a major stake	-	
19	Investments in ordinary shares of unconsolidated financial institutions in which the Reporting Bank holds a major stake (including insurance subsidiaries) (amount above 10% threshold)	-	

		31 Dec 2019 Amount S$ million	Cross Reference to Section 4.1
20#	Mortgage servicing rights (amount above 10% threshold)	-	
21#	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	-	
23	of which: investments in ordinary shares of unconsolidated financial institutions in which the Reporting Bank holds a major stake (including insurance subsidiaries)	-	
24#	of which: mortgage servicing rights	-	
25#	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments	-	
26A	PE/VC investments held beyond the relevant holding periods set out in MAS Notice 630	-	
26B	Capital deficits in subsidiaries and associates that are regulated financial institutions	-	
26C	Any other items which the Authority may specify	-	
27	Regulatory adjustments applied in calculation of CET1 Capital due to insufficient AT1 Capital to satisfy required deductions	-	
28	**Total regulatory adjustments to CET1 Capital**	**(2)**	
29	**Common Equity Tier 1 capital (CET1)**	**1,637**	
Additional Tier 1 Capital: Instruments			
30	AT1 capital instruments and share premium (if applicable)	-	
31	of which: classified as equity under the Accounting Standards	-	
32	of which: classified as liabilities under the Accounting Standards	-	
33	Transitional: Ineligible capital instruments (pursuant to paragraphs 6.5.3 and 6.5.4)	-	
34	AT1 capital instruments issued by fully-consolidated subsidiaries that meet criteria for inclusion	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	**Additional Tier 1 capital before regulatory adjustments**	-	
Additional Tier 1 Capital: Regulatory Adjustments			
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments of financial institutions	-	
39	Investments in AT1 capital instruments of unconsolidated financial institutions in which Reporting Bank does not hold a major stake	-	
40	Investments in AT1 capital instruments of unconsolidated financial institutions in which the Reporting Bank holds a major stake (including insurance subsidiaries)	-	

		31 Dec 2019 Amount S$ million	Cross Reference to Section 4.1
41	National specific regulatory adjustments which the Authority may specify	-	
42	Regulatory adjustments applied in calculation of AT1 Capital due to insufficient Tier 2 Capital to satisfy required deductions	-	
43	**Total regulatory adjustments to Additional Tier 1 capital**	-	
44	**Additional Tier 1 capital (AT1)**	-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**1,637**	
Tier 2 Capital: Instruments and Provisions			
46	Tier 2 capital instruments and share premium (if applicable)	-	
47	*Transitional: Ineligible capital instruments (pursuant to paragraphs 6.5.3 and 6.5.4)*	-	
48	Tier 2 capital instruments issued by fully-consolidated subsidiaries that meet criteria for inclusion	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Provisions	57	A
51	**Tier 2 capital before regulator adjustments**	57	
Tier 2 Capital: Regulatory Adjustments			
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments of financial institutions	-	
54	Investments in Tier 2 capital instruments and other TLAC liabilities of unconsolidated financial institutions in which the Reporting Bank does not hold a major stake	-	
54a[#]	Investments in other TLAC liabilities of unconsolidated financial institutions in which the Reporting Bank does not hold a major stake : amount previously designated for the 5% threshold but that no longer meets the conditions	-	
55	Investments in Tier 2 capital instruments and other TLAC liabilities of unconsolidated financial institutions in which the Reporting bank holds a major stake (including insurance subsidiaries)	-	
56	National specific regulatory adjustments which the Authority may specify	-	
57	**Total regulatory adjustments to Tier 2 capital**	**-**	
58	**Tier 2 capital (T2)**	**57**	
59	**Total capital (TC = T1 + T2)**	**1,694**	
60	**Floor adjusted total risk weighted assets**	**10,360**	
61	**Common Equity Tier 1 CAR**	15.80%	
62	**Tier 1 CAR**	15.80%	
63	**Total CAR**	16.35%	

		31 Dec 2019 Amount S$ million	Cross Reference to Section 4.1
64	Bank-specific buffer requirement	9.02%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: bank specific countercyclical buffer requirement	0.02%	
67	of which: G-SIB buffer requirement (if applicable)	-	
68	Common Equity Tier 1 available after meeting the Reporting Bank's minimum capital requirements	6.35%	
National Minima			
69	Minimum CET1 CAR	6.50%	
70	Minimum Tier 1 CAR	8.00%	
71	Minimum Total CAR	10.00%	
72	Investments in ordinary shares, AT1 capital and Tier 2 capital of unconsolidated financial institutions in which the bank does not hold a major stake	-	
73	Investments in ordinary shares of unconsolidated financial institutions in which the Reporting Bank hold a major stake (including insurance subsidiaries)	-	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liability)	-	
Applicable Caps on the Inclusion of Provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	57	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	118	
78	Provision eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	
80	Current cap on CET1 instruments subject to phase out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 due to cap (excess over cap after *redemptions and maturities)*	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

Note:

Items marked with a hash [#] are elements where a more conservative definition has been applied relative to those set out under the Basel III capital standards.

4.3. Main Features of Capital Instruments

The following disclosure is based on the prescribed template set out in MAS Notice 637 Table 11D-1. This disclosure shall be updated whenever there is an issuance, redemption, conversion/write-down, or other material changes in the nature of an existing capital instrument.

Ordinary Shares

No		
1	Issuer	HSBC Bank (Singapore) Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	Singapore
4	Transitional Basel III rules	NA
5	Post-transitional Basel III rules	Common Equity Tier 1
6	Eligible at solo / group / group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	S$1,530 million
9	Par value of instrument	No par value
10	Accounting classification	Shareholder's Equity
11	Original date of issuance	Various
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / Dividends	
17	Fixed or floating dividend / coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	NA
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	No
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned)	Represents the most subordinated claim in the event of liquidation of the Bank
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

5. Linkages between Financial Statements and Regulatory Exposures

5.1. Differences between Accounting and Regulatory Scopes of Consolidation and Mapping of Financial Statement Categories with Regulatory Risk Categories

The following table shows the breakdown of the amount reported in the financial statements by regulatory risk categories.

	31 Dec 2019						
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Carrying amounts as reported in balance sheet of published financial statements	Carrying amount of items					
S$ million		Carrying amounts under regulatory scope of consolidation	Subject to credit risk requirements	Subject to CCR [(1)] requirements	Subject to securitization framework	Subject to market risk requirements	Not subject to capital requirements or subject to deduction from regulatory capital
Assets							
Cash and balances with central banks	527	527	527	-	-	-	-
Singapore government treasury bills and securities	3,464	3,464	3,464	-	-	-	-
Other government treasury bills and securities	723	723	723	-	-	-	-
Derivative assets	13	13	-	13	-	13	-
Balance and placements with, and loans to, banks	57	57	57	-	-	-	-
Loans & advances to customers	14,758	14,773	14,773	-	-	-	(15)
Amounts due from immediate holding company	94	94	94	-	-	-	-
Amounts due from related corporations	6,307	6,307	3,067	3,240	-	-	-
Other assets	125	111	111	-	-	-	14
Property, plant and equipment	115	80	80	-	-	-	35
Intangible assets	3	3	3	-	-	-	-
Total Assets	**26,186**	**26,152**	**22,899**	**3,253**	**-**	**13**	**34**

Note:

[(1)] *CCR – counterparty credit risk*

	31 Dec 2019						
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
		Carrying amount of items					
S$ million	**Carrying amounts as reported in balance sheet of published financial statements**	**Carrying amounts under regulatory scope of consolidation**	**Subject to credit risk requirements**	**Subject to CCR [(1)] requirements**	**Subject to securitization framework**	**Subject to market risk requirements**	**Not subject to capital requirements or subject to deduction from regulatory capital**
Liabilities							
Derivatives liabilities	17	-	-	17	-	-	-
Deposits and balances of banks	37	-	-	-	-	-	37
Deposits of non-bank customers	21,074	-	-	-	-	-	21,074
Amounts due to immediate holding company	13	-	-	-	-	-	13
Amounts due to related corporation	3,016	-	-	-	-	-	3,016
Other liabilities	173	-	-	-	-	-	173
Current tax liabilities	34	-	-	-	-	-	34
Deferred taxation	1	-	-	-	-	-	1
Total Liabilities	**24,365**	**-**	**-**	**17**	**-**	**-**	**24,348**

The sum of amounts disclosed under columns (b) to (f) above can be more than amounts disclosed in column (a) as some of the assets and liabilities, such as derivatives and amounts due to/from banks can be subject to regulatory capital charges for credit risk, counterparty credit risk and market risk.

Note:

(1) CCR – counterparty credit risk

5.2 Main Sources of Differences between Regulatory Exposure Amounts and Carrying amounts in Financial Statements

The following table provides information on the main sources of differences between regulatory exposure amounts and carrying amounts in the financial statements.

S$ million	31 Dec 2019			
	(a)	(b)	(c)	(d)
	Total	Items subject to -		
		Credit risk requirements	CCR requirements	Securitisation framework
Assets carrying amount under regulatory scope of consolidation	26,152	22,899	3,253	-
Liabilities carrying amount under regulatory scope of consolidation	(17)	-	(17)	-
Total net amount under regulatory scope of consolidation	26,135	22,899	3,236	-
Off-balance sheet amounts	6,186	373	-	-
Differences due to derivatives and securities financing transaction	-	-	(3,137)	-
Differences due to consideration of allowances	-	57	-	-
Other differences	-	(10)	(11)	-
Exposure amounts considered for regulatory purposes	32,321	23,319	88	-

Items subject to market risk requirements have not been included in the table above as these are computed based on notional positions in the relevant underlying instruments.

5.3 Qualitative Disclosure of Differences between Carrying Amounts in Financial Statements and Regulatory Exposure Amounts

The key differences between carrying values in the financial statement and regulatory exposure amounts are as follows:

(i) Off-balance sheet amounts: Off-balance sheet amounts include contingent liabilities and undrawn portions of credit facilities after application of credit conversion factors.

(ii) Differences due to derivatives and securities financing transactions: Derivatives and securities financing counterparty exposures are netted where an enforceable netting agreement is in place. Derivative exposures also include potential future exposures for counterparty credit risk.

(iii) Differences due to consideration of provision: The carrying values of assets in the financial statements are net of impairment allowances - specific allowances (Expected Credit Loss Stage 3) and general allowances (Expected Credit Loss Stage 1 and 2). However, regulatory exposures under SA are net of Stage 3 allowances.

(iv) Other differences: These are mainly due to collaterals received for credit risk mitigation.

5.4 Prudent Valuation Adjustments

The following table provides a breakdown of the elements of prudent valuation adjustment (‘PVA’):-

		31 Dec 2019							
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	S$ million	**Equity**	**Interest rates**	**FX**	**Credit**	**Commodities**	**Total**	**of which in the trading book**	**of which in the banking book**
1	Closeout uncertainty	-	0.4	-	-	-	0.4	-	0.4
2	of which: Midmarket value	-	0.2	-	-	-	0.2	-	0.2
3	of which: Closeout cost	-	-	-	-	-	-	-	-
4	of which: Concentration	-	0.2	-	-	-	0.2	-	0.2
5	Early termination	-	-	-	-	-	-	-	-
6	Model risk	-	-	-	-	-	-	-	-
7	Operational risk	-	-	-	-	-	-	-	-
8	Investing and funding costs	-	-	-	-	-	-	-	-
9	Unearned credit spreads	-	-	-	-	-	-	-	-
10	Future administrative costs	-	-	-	-	-	-	-	-
11	Other	-	-	-	-	-	-	-	-
12	**Total adjustment**	-	**0.4**	**-**	**-**	**-**	**0.4**	**-**	**0.4**

The Bank has documented policies and maintains systems and controls for the calculation of PVA. Prudent value represents a conservative estimate with a 90% degree of certainty of a price that would be received on sale of an asset or paid to settle a liability in orderly transactions occurring between market participants at the balance sheet date. The Bank’s PVA is solely related to close out uncertainty in respect of its securities and derivatives portfolio carried at fair values.

6. Leverage Ratio

Leverage Ratio Common Disclosure Template

	Item	31 Dec 2019 S$ million	30 Sep 2019 S$ million
Exposure Measure of On-Balance Sheet Items			
1	On-balance sheet items (excluding derivative transactions and SFTs, but including on-balance sheet collateral for derivative transactions or SFTs)	22,956	22,732
2	Asset amounts deducted in determining Tier 1 Capital	(2)	(3)
3	**Total exposure measures of on-balance sheet items** (excluding derivative transactions and SFTs)	22,954	22,729
Derivative Exposure Measures			
4	Replacement cost associated with all derivative transactions (net of the eligible cash portion of variation margins)	14	3
5	Potential future exposure associated with all derivative transactions	59	28
6	Gross-up for derivative collaterals provided where deducted from the balance sheet assets in accordance with Accounting Standards	-	-
7	Deductions of receivables for the cash portion of variation margins provided in derivative transactions	-	-
8	CCP leg of trade exposures excluded	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	Further adjustments in effective notional amounts and deductions from potential future exposures of written credit derivatives	-	-
11	**Total derivative exposure measures**	73	31
SFT Exposure Measures			
12	Gross SFT assets (with no recognition of accounting netting), after adjusting for sales accounting	3,241	2,521
13	Eligible netting of cash payables and cash receivables	-	-
14	SFT counterparty exposures	-	-
15	SFT exposure measures where a Reporting Bank acts as an agent in the SFTs	-	-
16	**Total SFT exposure measures**	3,241	2,521
Exposure Measures of Off-Balance Sheet Items			
17	Off-balance sheet items at notional amount	6,186	6,313
18	Adjustments for calculation of exposure measures of off-balance sheet items	(5,261)	(5,384)
19	**Total exposure measures of off-balance sheet items**	925	929
Capital and Total Exposures			
20	Tier 1 capital	1,637	1,635
21	Total exposures	27,193	26,210
Leverage Ratio			
22	**Leverage ratio**	6.02%	6.24%

The leverage ratio as at 31 December 2019 decrease by 22bps mainly due to increase in SFT exposures. The ratio is above the 3% minimum requirement.

Leverage Ratio Summary Comparison Table

	Item	**31 Dec 2019 S$ million**	**30 Sep 2019 S$ million**
1	Total consolidated assets as per published financial statements	26,186	25,281
2	Adjustment for investments in entities that are consolidated for accounting purposes but are outside the regulatory scope of consolidation	-	-
3	Adjustment for fiduciary assets recognized on the balance sheet in accordance with the Accounting Standards but excluded from the calculation of the exposure measure	-	-
4	Adjustment for derivative transactions	59	28
5	Adjustment for SFTs	-	-
6	Adjustment for off-balance sheet items	925	929
7	Other adjustments	23	(28)
8	**Exposure Measure**	**27,193**	**26,210**

7. Overview of Risk Weighted Assets

The table provides an overview of the Bank's RWA as required under MAS Notice 637.

		RWA		Minimum Capital Requirement (1)
	S$ million	**31-Dec 2019**	**30-Sep 2019**	**31-Dec 2019**
1	**Credit Risk (excluding Counterparty Credit Risk)**	**9,411**	**9,420**	**941**
2	of which: Standardised Approach	9,411	9,420	941
3	of which: F-IRBA/ IRBA/ Supervisory slotting approach	-	-	-
4	**Counterparty Credit Risk**	**17**	**15**	**2**
5	of which: Current Exposure Method	12	7	1
6	of which: CCR Internal Models Method/other CCR	-	-	-
6a	of which: Central Counterparty Exposure (CCP)	-	-	-
7	Credit Valuation Adjustment (CVA)	-	-	-
8	**Equity exposures under the simple risk weight method**	-	-	-
8a	**Equity exposures under the IMM**			
9	Equity investments in funds – Look Through Approach	-	-	-
10	Equity investments in funds – Mandate-Based Approach	-	-	-
11	Equity investments in funds – Fall Back Approach	-	-	-
11a	Equity investment in funds – Partial Use of an Approach	-	-	-
12	**Unsettled Transactions**	-	-	-
13	**Securitisation exposures in the Banking Book**	-	-	-
13	of which: SEC - IRBA	-	-	-
14	of which: SEC – ERBA, including IAA	-	-	-
15	of which: SEC - SA	-	-	-
16	**Market Risk**	**4**	**18**	-
17	of which: SA(MR)	4	18	-
18	of which: IMA	-	-	-
19	**Operational Risk**	**928**	**889**	**93**
20	**Amounts below the thresholds for deduction (subject to 250% Risk Weight)**	-	-	-
21	**Floor Adjustment**	-	-	-
22	**Total**	**10,360**	**10,342**	**1,036**

The increase in RWA between December 2019 and September 2019 was due to an increase in Operational Risk RWA by S$39m, partially offset by a decrease in Credit RWA by S$9m and Market Risk RWA by S$14m.

Note:
(1) Minimum capital requirements are calculated at 10% of RWA.

8. Credit Risk

8.1 Overview and Responsibilities

Credit risk is the risk arising from the uncertainty of an obligor's ability to repay its contractual obligations. Credit risk could stem from both on- and off-balance sheet transactions. An institution is exposed to credit risk from diverse financial instruments such as loans and advances, trade finance products and acceptances, securities, derivatives, undrawn commitments and guarantees.

Credit Risk is managed by the Bank through a framework to adequately identify, measure, evaluate, monitor, report and control or mitigate credit risk on a timely basis. The framework is outlined in the form of credit policies, procedures, lending guidelines and credit approval authority delegations. These are consistent with HSBC Group's global guidelines and incorporates country-specific risk environment and portfolio characteristics of the Bank. Credit risk is the largest component of the Bank's RWA.

Stress Testing

Stress testing is a key risk management tool used to assess a variety of risks to which the Bank is exposed, including liquidity risk, credit risk, market risk and operational risk.

A key objective of stress testing is to estimate the potential losses on the Bank's exposures and impact on the capital adequacy ratios, capital requirements and profit and loss under stressed conditions.

Within HSBC's framework, stress testing is considered as the collective quantitative and qualitative technique used to assess all facets of the risks faced by the HSBC Group and its operations.

Further details on credit risk management can be found in Note 32 of the Bank's Financial Statements.

8.2 Qualitative Disclosures Related to Credit Risk Mitigation

Risk Mitigation

In the Credit Risk Framework, the mitigation of credit risk is a key aspect of effective risk management. In a diversified financial services organization like HSBC, credit risk mitigation takes many forms. Collateral and guarantees, among other instruments, may be utilized to mitigate credit risks. However, credit risk mitigation is not exercised as a substitute, either for comprehensive assessment of the obligor or for complete obligor information. The Bank's approach when granting credit facilities is on the basis of capacity to repay rather than placing reliance on the credit risk mitigants.

8.2 Qualitative Disclosures Related to Credit Risk Mitigation (continued)

In general, the Bank's policies promote the utilization of credit risk mitigation whenever possible, justified by commercial prudence and good practices as well as capital efficiency. Policies on credit risk mitigation cover the governance and the acceptability, as well as the structuring and the terms of various types of credit risk mitigation. These policies, together with the setting of suitable valuation parameters, are subject to regular review to ensure that they are supported by empirical evidence and continue to fulfil their intended purpose.

Collateral

The most common method of mitigating credit risk is collateral. In financial markets, counterparties' facilities are supported by charges over financial instruments such as cash and debt securities and non-financial instruments such as tangible assets and properties. Within the residential and commercial real estate ("CRE") portfolios of the Bank, a mortgage over the property is usually taken to help secure claims. Financial collateral in the form of cash and marketable securities is exchanged for the Bank's derivatives portfolio and in securities financing transactions ("SFT"), such as repos and reverse repos. Netting is used and is a prominent feature of market standard documentation adopted for the derivatives.

Policy and Procedures

Policies and procedures govern the protection of the Bank's position from the onset of a customer relationship; for instance, in requiring standard terms and conditions or specifically agreed documentation permitting the offset of credit balances against debt obligations and through controls over integrity, current valuation and, if necessary, realisation of collateral security.

Collateral Valuation

Valuation strategies are established to monitor collateral mitigants to ensure that they will continue to provide the anticipated secure secondary repayment source. Where collateral is subject to high volatility, valuation is frequent and where stable, less frequent. For traded products such as collateralised over-the-counter ("OTC") derivatives and SFTs, the Bank typically carries out daily valuations.

For the residential mortgage and CRE portfolios, collateral values of property are determined through a combination of professional appraisals, house price indices or statistical property analysis. The Bank's policy prescribes revaluation at intervals of up to three years and more frequently if the need arises, for example, where market conditions are subject to significant changes. Revaluations are also sought where, for example, material concerns arise in relation to the performance of the collateral or in circumstances where an obligor's credit quality has declined significantly that the obligor may not fully meet its obligation.

8.3 Qualitative Disclosures on the Use of External Credit Ratings Under Standardised Approach (Credit Risk)

The Bank uses external ratings for credit exposures under the Standardised Approach (Credit Risk) ("SA(CR)"), where relevant, and only accepts ratings from Standard & Poor's Rating Services, Moody's Investor Services and Fitch Ratings. The Bank follows the processes prescribed in MAS Notice 637 to map the ratings to the relevant risk weights across the various asset classes under the Standardised Approach.

Where the SA(CR) exposure has an issuer-specific external credit assessment ("ECA"), the Bank uses it for calculating the applicable risk weights. Where the SA(CR) exposure does not have an issuer-specific ECA, a process is in place to check if an external credit rating of comparable assets as prescribed in MAS Notice 637 is available, else the exposure is treated as unrated.

The above approach is used for determination of risk weights for the following classes of exposure:

- Central Government and Central Banks
- Financial Institutions
- Corporates

8.4 Additional Disclosures Related to the Credit Quality of Assets

The Bank's credit facilities are classified according to the MAS Notice No. 612 "Credit Files, Grading and Provisioning" ("MAS Notice 612").

These guidelines require credit portfolios to be categorised into one of the following five categories, according to the Bank's assessment of a borrower's ability to repay a credit facility from its normal sources of income.

Classification Grade	Description
Performing Assets	
Pass	Indicates that the timely repayment of the outstanding credit facilities is not in doubt.
Special Mention	Indicates that the borrower exhibits potential weakness that, if not corrected in a timely manner, may adversely affect future repayments and warrant close attention by the Bank.
Classified or NPA	
Substandard	Indicates that the borrower exhibits definable weakness in its business, cash flow or financial position that may jeopardise repayment on existing terms. These credit facilities may be non-defaulting.
Doubtful	Indicates that the borrower exhibits severe weaknesses such that the prospect of full recovery of the outstanding credit facilities is questionable and the prospect of a loss is high, but the exact amount remains undeterminable.
Loss	Indicates that the amount of recovery is assessed to be insignificant.

8.4 Additional Disclosures Related to the Credit Quality of Assets (continued)

A default is considered to have occurred on a particular non-retail borrower when either or both of the following events have taken place:

- Subjective default: Borrower is considered to be unlikely to pay its credit obligations in full, without the Bank taking action such as realizing security (if held);
- Technical default: Borrower is more than 90 days past due on any credit obligation to the Bank.

Loans on which concessions have been granted under conditions of credit distress are classified as 'renegotiated loans' when their contractual payment terms have been modified due to significant concern about the borrowers' ability to meet contractual payments when due.

Such credit facilities, except for retailed renegotiated loans, are not returned to the performing status until there are reasonable grounds to conclude that the borrower will be able to service all future principal and interest payments on the credit facility in accordance with the restructured terms. Retail renegotiated loans continue to remain as credit impaired until the amounts are repaid/written off.

8.4.1 Credit Quality of Assets

The table below provides an overview of the credit quality of the on and off-balance sheet assets of the Bank.

		(a)	(b)	(c)	(d)	(e)	(f)	(g)
		Gross carrying amount of [1]		Allowances and impairments	of which: allowances for standardised approach exposures		of which: allowances for IRBA exposure	Net values (a+b-c)
	S$ million	Defaulted exposures	Non-defaulted exposures		of which: specific allowances	of which: general allowances		
1	Loans [2]	138	14,704	(84)	(27)	(57)	-	14,758
2	Debt securities	-	4,187	-	-	-	-	4,187
3	Off-balance sheet exposures	-	6,749	-	-	-	-	6,749
4	**Total**	**138**	**25,640**	**(84)**	**(27)**	**(57)**	**-**	**25,694**

Note
(1) *Refers to the accounting value of the assets before any allowances and impairments but after write-offs.*
(2) *Excludes inter-bank loans.*

8.4.2 Changes in Stock of Defaulted Loans and Debt Securities

	S$ million	(a)
1	**Defaulted loans and debt securities as at 30 Jun 2019**	151
2	Loans and debt securities that have defaulted in second half of 2019	38
3	Returned to non-defaulted status	(17)
4	Amounts written-off	(23)
5	Other changes	(11)
6	**Defaulted loans and debt securities as at 31 Dec 2019 (1+2-3-4±5)**	**138**

8.4.3 Additional Quantitative Disclosures related to Credit Quality of Assets

The following tables show the breakdown of credit risk exposures by geographical areas, industry and residual maturity.

Breakdown by Geographical Areas

	31 Dec 2019 S$ million	31 Dec 2018 S$ million
Singapore	19,409	19,103
South East Asia	982	470
Greater China	486	489
Rest of the World	4,901	1,537
Total	**25,778**	**21,599**

Breakdown by Industry

	31 Dec 2019 S$ million	31 Dec 2018 S$ million
Agriculture, forestry and fishing	-	6
Mining and quarrying	338	81
Manufacture	404	196
Electricity, gas, steam and air-conditioning supply	83	104
Water supply, sewerage waste management and remediation	2	4
Wholesale and retail trade, repair of motor vehicles and motorcycles	684	465
Transportation and storage	162	181
Accommodation and food	35	45
Publishing, audiovisual and broadcasting	120	80
Professional, scientific and technical activities	197	52
Real Estate	1,816	1,611
Non-bank financial institutions	70	-
Financial institutions, investment and holding companies	6,076	3,980
Government	4,187	3,825
Housing loans	9,102	8,418
Professional and private individuals	2,502	2,551
Total	**25,778**	**21,599**

Breakdown by Residual Maturity

	31 Dec 2019 S$ million	31 Dec 2018 S$ million
Up to 1 year	12,402	10,301
More than 1 year	13,376	11,298
Total	**25,778**	**21,599**

The comparative figures have been adjusted to conform with the current year presentation.

8.4.3 Additional Quantitative Disclosures Related to Credit Quality of Assets (continued)

The following tables show the breakdown of non-performing exposures, specific allowances and write-offs (during the year 2019) by geographical areas and industry.

Breakdown by Geographical Areas

		31 Dec 2019		
	S$ million	**Non-Performing Loans**	**Specific Allowances**	**Write-off (During Year 2019)**
1	Singapore	135	27	52
2	South East Asia	3	-	-
3	Greater China	-	-	-
4	Rest of the World	-	-	-
	Total	**138**	**27**	**52**

		31 Dec 2018		
	S$ million	**Non-Performing Loans**	**Specific Allowances**	**Write-off (During Year 2018)**
1	Singapore	150	30	45
2	South East Asia	4	-	-
3	Greater China	-	-	-
4	Rest of the World	2	-	-
	Total	**156**	**30**	**45**

Breakdown by Industry

		31 Dec 2019		
	S$ million	**Non-Performing Loans**	**Specific Allowances**	**Write-off (During Year 2019)**
1	Housing	19	-	-
2	Professionals and individuals	119	27	52
	Total	**138**	**27**	**52**

		31 Dec 2018		
	S$ million	**Non-Performing Loans**	**Specific Allowances**	**Write-off (During Year 2018)**
1	Housing	33	-	-
2	Professionals and individuals	123	30	45
	Total	**156**	**30**	**45**

Breakdown of Ageing Analysis of Past Due Exposures:

S$ million	**31 Dec 2019**	**31 Dec 2018**
Less than 29 days	103	113
Within 30 to 89 days	17	29
More than 89 days	18	14
Total	**138**	**156**

8.4.4 Disclosure on Restructured Exposures

Credit facilities are classified as restructured (also referred to as renegotiated) assets when the Bank grants non-commercial concessions to a borrower because of its financial position or when the borrower is unable to meet the original repayment schedule. A re-negotiated credit facility is classified into the appropriate non-performing grade based on the assessment of the borrower's financial condition and its ability to repay according to the restructured terms. Renegotiated retail loans are classified as credit impaired (Doubtful) until fully repaid or written off.

Retail renegotiated credit exposures as at 31 December 2019 is S$75 million.

8.5 Overview of Credit Risk Mitigation Techniques

The effects of credit risk mitigation ("CRM") techniques are presented in accordance with the requirements of MAS Notice 637 on collateral eligibility and prescribed haircuts. As such, the reported collateral value is a subset of the total collateral value and would have excluded ineligible collateral types such as residential and commercial properties on mortgages, industrial properties located outside of Singapore, plant and machinery and underlying assets financed through specialised lending.

		31 Dec 2019				
		(a)	(b)	(c)	(d)	(e)
	S$ million	**Exposures unsecured**	**Exposures secured**	**Exposures secured by collateral**	**Exposures secured by financial guarantees**	**Exposures secured by credit derivatives**
1	Loans	14,748	10	10	-	-
2	Debt Securities	4,187	-	-	-	-
3	**Total**	**18,935**	**10**	**10**	-	-
4	Of which: defaulted	138	-	-	-	-

		30 Jun 2019				
		(a)	(b)	(c)	(d)	(e)
	S$ million	**Exposures unsecured**	**Exposures secured**	**Exposures secured by collateral**	**Exposures secured by financial guarantees**	**Exposures secured by credit derivatives**
1	Loans	14,157	11	11	-	-
2	Debt Securities	3,069	-	-	-	-
3	**Total**	**17,226**	**11**	**11**	-	-
4	Of which: defaulted	151	-	-	-	-

The increase in the loan balances in the second half of 2019 is attributed to increase in mortgage and corporate loans. The increase in debt securities in the second half of 2019 is attributed to increase in holdings of government securities.

8.6 SA(CR) and SA(EQ) – Credit Risk Exposure and CRM Effects

		31 Dec 2019					
		(a)	(b)	(c)	(d)	(e)	(f)
	S$ million	Exposures before CCF and CRM		Exposure post-CCF and post-CRM		RWA and RWA density	
	Asset classes and others	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density (1)**
1	Cash items	49	-	49	-	-	0%
2	Central government and central bank	4,727	-	4,727	-	-	0%
3	PSE	-	-	-	-	-	0%
4	MDB	-	-	-	-	-	0%
5	Bank	6,458	5,930	3,230	62	658	20%
6	Corporate	3,503	270	3,503	269	3,772	100%
7	Regulatory retail	1,720	5,522	1,717	2	1,311	76%
8	Residential Mortgage	9,431	397	9,428	102	3,361	35%
9	CRE	162	-	162	-	162	100%
10	Equity – SA(EQ)	-	-	-	-	-	0%
11	Past due exposures	31	-	28	-	36	129%
12	Higher-risk categories	-	-	-	-	-	0%
13	Other exposures	128	-	128	-	128	100%
14	**Total**	**26,209**	**12,119**	**22,972**	**435**	**9,428**	**41%**

		30 Jun 2019					
		(a)	(b)	(c)	(d)	(e)	(f)
	S$ million	Exposures before CCF and CRM		Exposure post-CCF and post-CRM		RWA and RWA density	
	Asset classes and others	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density (1)**
1	Cash items	54	-	54	-	2	4%
2	Central government and central bank	3,617	-	3,617	-	-	0%
3	PSE	-	-	-	-	-	0%
4	MDB	-	-	-	-	-	0%
5	Bank	6,653	1,039	3,873	14	778	20%
6	Corporate	3,439	374	3,439	322	3,761	100%
7	Regulatory retail	1,697	5,276#	1,691	3	1,282	76%
8	Residential Mortgage	9,066	595	9,062	126	3,251	35%
9	CRE	21	-	21	-	21	100%
10	Equity – SA(EQ)	-	-	-	-	-	0%
11	Past due exposures	36	-	36	-	50	139%
12	Higher-risk categories	-	-	-	-	-	0%
13	Other exposures	137	-	137	-	137	100%
14	**Total**	**24,720**	**7,284**	**21,930**	**465**	**9,282**	**42%**

The increase in RWA is mainly driven by higher exposure in corporate, CRE and residential mortgage.

Note
(1) Total RWA divided by the exposures post-CCF and post-CRM.
 # The comparative figures have been adjusted to conform with current year presentation. No impact on RWA.

8.7 SA(CR) and SA(EQ) – Exposure by Asset Class and Risk Weights

The following table provides the breakdown of the Bank's credit risk exposures under the SA(CR) and SA(EQ) by asset class and risk weight.

		31 Dec 2019									
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
S$ million		**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposure amount (post-CCF and post CRM) (1)**
	Asset classes										
1	Cash items	49	-	-	-	-	-	-	-	-	49
2	Central government and central bank	4,727	-	-	-	-	-	-	-	-	4,727
3	PSE	-	-	-	-	-	-	-	-	-	-
4	MDB	-	-	-	-	-	-	-	-	-	-
5	Bank	-	-	3,292	-	-	-	-	-	-	3,292
6	Corporate	-	-	-	-	-	-	3,772	-	-	3,772
7	Regulatory retail	-	-	-	-	-	1,663	41	15	-	1,719
8	Residential Mortgage	-	-	-	9,481	-	24	25	-	-	9,530
9	CRE	-	-	-	-	-	-	162	-	-	162
10	Equity – SA(EQ)	-	-	-	-	-	-		-	-	-
11	Past due exposures	-	-	-	-	-	-	12	16	-	28
12	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
13	Other exposures	-	-	-	-	-	-	128	-	-	128
14	**Total**	**4,776**	**-**	**3,292**	**9,481**	**-**	**1,687**	**4,140**	**31**	**-**	**23,407**

Total exposures increased in the second half of 2019 mainly due to increase in exposure to Central Government and Central Bank asset class.

Note

(1) Total credit exposure amount refers to both on and off-balance sheet amounts that are used for computing capital requirements, net of impairment allowances and write-offs and application of CRM and CCF.

S$ million		30 Jun 2019									
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
		0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposure amount (post-CCF and post CRM) [(1)]
	Asset classes										
1	Cash items	44	-	10	-	-	-	-	-	-	54
2	Central government and central bank	3,617	-	-	-	-	-	-	-	-	3,617
3	PSE	-	-	-	-	-	-	-	-	-	-
4	MDB	-	-	-	-	-	-	-	-	-	-
5	Bank	-	-	3,887	-	-	-	-	-	-	3,887
6	Corporate	-	-	-	-	-	-	3,761	-	-	3,761
7	Regulatory retail	-	-	-	-	-	1,648	46	-	-	1,694
8	Residential Mortgage	-	-	-	9,111	-	56	21	-	-	9,188
9	CRE	-	-	-	-	-	-	21	-	-	21
10	Equity – SA(EQ)	-	-	-	-	-	-	-	-	-	-
11	Past due exposures	-	-	-	-	-	-	7	29	-	36
12	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
13	Other exposures	-	-	-	-	-	-	137	-	-	137
14	**Total**	**3,661**	**-**	**3,897**	**9,111**	**-**	**1,704**	**3,993**	**29**	**-**	**22,395**

Note

(1) Total credit exposure amount refers to both on and off-balance sheet amounts that are used for computing capital requirements, net of impairment allowances and write-offs and application of CRM and CCF.

9. Counterparty Credit Risk (CCR)

9.1 Overview

CCR risk arises on derivatives and SFT transactions. It is calculated for both trading and non-trading portfolio, and is the risk that a counterparty may default before settlement of the transaction.

The gross credit exposure for OTC derivative transactions is calculated under the current exposure method which comprises both replacement cost and potential future exposure after taking a Credit Conversion Factor ("CCF") on the derivative contract's notional principal.

9.2 Analysis of Counterparty Credit Risk Exposure by Approach

		31 Dec 2019					
		(a)	(b)	(c)	(d)	(e)	(f)
	S$ million	Replacement Cost	Potential Future Exposure	Effective EPE	α Used for Computing Regulatory EAD	EAD (Post-CRM)	RWA
1	Current Exposure Method (for Derivatives)	14	59			62	12
2	CCR Internal Models Method (for Derivatives and SFTs)			-	-	-	-
3	FC(SA) (for SFTs)					-	-
4	FC(CA) (for SFTs)					26	5
5	VaR for SFTs					-	-
6	**Total**						**17**

		30 Jun 2019					
		(a)	(b)	(c)	(d)	(e)	(f)
	S$ million	Replacement Cost	Potential Future Exposure	Effective EPE	α Used for Computing Regulatory EAD	EAD (Post-CRM)	RWA
1	Current Exposure Method (for Derivatives)	4	10			14	3
2	CCR Internal Models Method (for Derivatives and SFTs)			-	-	-	-
3	FC(SA) (for SFTs)					-	-
4	FC(CA) (for SFTs)					45	9
5	VaR for SFTs					-	-
6	**Total**						**12**

CCR exposures increased in 31 December 2019 mainly driven by an increase derivatives transactions.

9.3 CVA Risk Capital Requirements

The Bank does not have Credit Valuation Adjustments ("CVA") as at 31 December 2019.

9.4 Standardised Approach – Counterparty Credit Risk Exposures by Portfolio and Risk Weights

	31 Dec 2019									
S$ million	**(a)**	**(b)**	**(c)**	**(d)**	**(e)**	**(f)**	**(g)**	**(h)**	**(i)**	**(j)**
Asset Classes and Others	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total Credit Exposure**
Central government and central bank	-	-	-	-	-	-	-	-	-	-
PSE	-	-	-	-	-	-	-	-	-	-
MDB	-	-	-	-	-	-	-	-	-	-
Bank	-	-	88	-	-	-	-	-	-	88
Corporate	-	-	-	-	-	-	-	-	-	-
Regulatory retail	-	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	88	**-**	**-**	**-**	**-**	**-**	**-**	**88**

	30 Jun 2019									
S$ million	**(a)**	**(b)**	**(c)**	**(d)**	**(e)**	**(f)**	**(g)**	**(h)**	**(i)**	**(j)**
Asset Classes and Others	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total Credit Exposure**
Central government and central bank	-	-	-	-	-	-	-	-	-	-
PSE	-	-	-	-	-	-	-	-	-	-
MDB	-	-	-	-	-	-	-	-	-	-
Bank	-	-	59	-	-	-	-	-	-	59
Corporate	-	-	-	-	-	-	-	-	-	-
Regulatory retail	-	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**59**	**-**	**-**	**-**	**-**	**-**	**-**	**59**

The increase in CCR exposure is mainly due to increase in foreign exchange derivatives.

9.5 Composition of Collateral for CCR Exposure

		31 Dec 2019					
		(a)	(b)	(c)	(d)	(e)	(f)
		Collateral used in derivative transactions				Collateral used in SFTs	
		Fair value of collateral received		Fair value of collateral posted		Fair value of collateral received	Fair value of collateral posted
S$ million		**Segregated**	**Unsegregated**	**Segregated**	**Unsegregated**		
1	Cash - domestic currency	-	-	-	-	-	-
2	Cash - other currencies	11	-	-	-	-	-
3	Domestic sovereign debt	-	-	-	-	3,248	-
4	Other sovereign debt	-	-	-	-	-	-
5	Corporate bonds	-	-	-	-	-	-
6	Equity securities	-	-	-	-	-	-
7	Other collateral	-	-	-	-	-	-
8	**Total**	**11**	**-**	**-**	**-**	**3,248**	**-**

		30 Jun 2019					
		(a)	(b)	(c)	(d)	(e)	(f)
		Collateral used in derivative transactions				Collateral used in SFTs	
		Fair value of collateral received		Fair value of collateral posted		Fair value of collateral received	Fair value of collateral posted
S$ million		**Segregated**	**Unsegregated**	**Segregated**	**Unsegregated**		
1	Cash - domestic currency	-	-	-	-	-	-
2	Cash - other currencies	-	-	-	-	-	-
3	Domestic sovereign debt	-	-	-	-	2,832	-
4	Other sovereign debt	-	-	-	-	-	-
5	Corporate bonds	-	-	-	-	-	-
6	Equity securities	-	-	-	-	-	-
7	Other collateral	-	-	-	-	-	-
8	**Total**	**-**	**-**	**-**	**-**	**2,832**	**-**

The increase in collateral used in securities financing transactions during the second half of 2019 was mainly due to increase in volume of such transactions.

9.6 Exposures to Central Clearing Counterparties

There are no exposures to central clearing counterparties as at 31 December 2019.

9.7 Credit Derivative Exposures

The Bank does not have any credit derivatives exposures as at 31 December 2019.

9.8 Securitisation Exposures

The Bank does not have any securitisation exposures as at 31 December 2019.

10. Market Risk

10.1 Overview

Market risk is the risk that movements in market risk factors such as foreign exchange rates, commodity prices, credit spreads, interest rates and equity prices will reduce the Bank's income or the value of its portfolios.

The Bank employs a range of tools to monitor and limit market risk exposures. These include sensitivity analysis, value at risk ("VaR") and stress testing.

The Bank manages market risk through risk limits approved by its Board of Directors. The Bank has adopted HSBC Group's market risk management framework and policies. HSBC's Group Risk function develops the market risk management policies and measurement techniques. An independent market risk management and control function, which is responsible for measuring market risk exposures in accordance with the policies defined by HSBC Group Risk, monitors and reports these exposures against the prescribed limits on a daily basis.

Risk limits are determined for each HSBC location and within location, for each portfolio. Limits are set for portfolios, products and risks types. Market liquidity, risk appetite and business needs are the primary factors in determining the level of limits set. HSBC Group's control of market risk in the trading and non-trading portfolios is based on a policy of restricting individual locations to trading within a list of permissible instruments authorised for each location by Group Risk, of enforcing new product approval procedures, and of restricting trading in the more complex derivative products only to locations with appropriate levels of product expertise and robust control systems

The Bank uses the Standardised Approach to calculate its Market Risk RWA.

Further details on Market Risk management can be found in Note 32 of the Bank's Financial Statements.

The Bank's market risk RWA is summarized below:

10.2 Market Risk under Standardised Approach

	S$ million	**31 Dec 19 RWA**	**30 Jun 19 RWA**
	Products Excluding Options		
1	Interest rate risk (general and specific)	-	30
2	Equity risk (general and specific)	-	-
3	Foreign exchange risk	4	8
4	Commodity risk	-	-
	Options		
5	Simplified approach	-	-
6	Delta-plus method	-	-
7	Scenario approach	-	-
8	Securitisation	-	-
9	**Total**	**4**	**38**

The decrease in market risk-weighted assets was mainly due to reduction in interest rate risk as a result of shorter duration of derivatives outstanding as at 31 December 2019.

11. Operational Risk

Operational risk is defined as: “The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.” The objective of operational risk management is to provide support to the HSBC’s Global Businesses so that they are able to effectively manage their risks within their defined risk appetites.

The Bank uses the Standardised Approach in determining its operational risk capital requirements.

Further details on the Bank's operational risk management framework can be found in Note 32 of the Bank's Financial Statements.

12. Other Risk

12.1 Interest Rate Risk in the Banking Book

Interest rate risk in the banking book ('IRRBB') is the potential adverse impact of changes in interest rates on earnings and capital. The component of IRRBB that can be economically neutralized in the market is transferred to Balance Sheet Management ('BSM') to manage, in accordance with internal transfer pricing rules. In its management of IRRBB, the Bank aims to balance mitigation of the effect of future interest rate movements which could reduce net interest income ('NII') against the cost of hedging. The monitoring of the projected NII and economic value of equity sensitivity under varying interest rate scenarios is a key part of this approach.

A principal part of HSBC's management of non-traded interest rate risk is to monitor the sensitivity of expected NII under varying interest rate scenarios (simulation modelling), where all other economic variables are held constant. Projected net interest income sensitivity figures represent the effect of pro forma movements in projected yield curves based on a static balance sheet size and structure. Business line interest rate pass-on assumptions, re-investment of maturing assets and liabilities at market rates per shock scenario and prepayment risk are incorporated in the projection. These sensitivity calculations do not incorporate actions that would be taken by Balance Sheet Management ("BSM") or the business units to mitigate the effect of interest rate movements.

The table below sets out the assessed impact to a hypothetical base case projection of the Bank's NII, assuming a static balance sheet under the following scenarios:

- Parallel shock up and parallel shock down to the current market-implied path of interest rates across all currencies on 1 January 2019, using the specified size of interest rate shock for each currency as per Annex 10C of MAS Notice 637; and

	Singapore Dollar S$ million	US Dollar S$ million	Other Currency S$ million	Total S$ million
Change in Jan 2020 to Dec 2020 NII (based on balance sheet at 31 Dec 2019)				
Parallel Up	134	(18)	15	131
Parallel Down	(16)	-	8	(8)

For additional information on the Bank's governance over IRRBB, please refer to Note 32 of the Bank's Financial Statements.

12.2 Liquidity Coverage Ratio ("LCR") Disclosure for 4Q 2019

The objective of LCR is to promote short-term resilience of the liquidity risk profile of banks by ensuring that banks have an adequate stock of unencumbered High Quality Liquid Assets ("HQLA") to meet their 30 calendar day liquidity stress scenario. The Bank and Singapore Branch of The Hongkong and Shanghai Banking Corporation Limited ("Branch") have obtained the approval of MAS to comply with requirements set out in MAS Notice 649 "Minimum Liquid Assets and Liquidity Coverage Ratio" at HSBC Singapore Country-level Group basis ("Country-level Group").

The following disclosures as per MAS Notice 651 "Liquidity Coverage Ratio Disclosure" are consistent with compliance to MAS Notice 649, which is at Country-level Group basis. The Country-level Group is required to maintain daily All-Currency LCR of 50% and Singapore dollar ("SGD") LCR of 100%.

12.2.1 Average Country-level Group All-Currency LCR for 4Q 2019

(Number of data points: 92 for 4Q 2019)

		4Q 2019	
S$ million		**Average Unweighted Value**	**Average Weighted Value**
HIGH-QUALITY LIQUID ASSETS			
1	**Total high-quality liquid assets (HQLA)**		**23,629**
CASH OUTFLOWS			
2	**Retail deposits and deposits from small business customers, of which:**	**26,475**	**2,509**
3	Stable deposits	2,771	139
4	Less stable deposits	23,705	2,370
5	**Unsecured wholesale funding, of which:**	**37,428**	**18,652**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	8,779	2,158
7	Non-operational deposits (all counterparties)	28,609	16,454
8	Unsecured debt	40	40
9	**Secured wholesale funding**		**40**
10	**Additional requirements, of which:**	**7,080**	**4,045**
11	Outflows related to derivative exposures and other collateral requirements	3,466	3,440
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	3,614	605
14	**Other contractual funding obligations**	**523**	**523**
15	**Other contingent funding obligations**	**4,038**	**124**
16	**TOTAL CASH OUTFLOWS**		**25,893**
CASH INFLOWS			
17	Secured lending (e.g. reverse repos)	2,724	40
18	Inflows from fully performing exposures	15,741	11,367
19	Other cash inflows	3,590	3,574
20	**TOTAL CASH INFLOWS**	**22,055**	**14,981**
21	**TOTAL HQLA**		**23,629**
22	**TOTAL NET CASH OUTLOWS**		**10,922**
23	**LIQUIDITY COVERAGE RATIO**		**226%**

12.2.2 Average Country-level Group SGD LCR for 4Q 2019

(Number of data points: 92 for 4Q 2019

S$ million		4Q 2019 Average Unweighted Value	4Q 2019 Average Weighted Value
HIGH-QUALITY LIQUID ASSETS			
1	**Total high-quality liquid assets (HQLA)**		**16,532**
CASH OUTFLOWS			
2	**Retail deposits and deposits from small business customers, of which:**	**13,103**	**1,172**
3	Stable deposits	2,771	139
4	Less stable deposits	10,332	1,033
5	**Unsecured wholesale funding, of which:**	**12,383**	**6,100**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	3,571	856
7	Non-operational deposits (all counterparties)	8,813	5,244
8	Unsecured debt	-	-
9	**Secured wholesale funding**		**-**
10	**Additional requirements, of which:**	**19,708**	**18,314**
11	Outflows related to derivative exposures and other collateral requirements	18,086	18,075
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	1,621	239
14	**Other contractual funding obligations**	**246**	**246**
15	**Other contingent funding obligations**	**265**	**11**
16	**TOTAL CASH OUTFLOWS**		**25,843**
CASH INFLOWS			
17	Secured lending (e.g. reverse repos)	2,627	-
18	Inflows from fully performing exposures	4,396	3,848
19	Other cash inflows	17,183	17,175
20	**TOTAL CASH INFLOWS**	**24,206**	**21,023**
21	**TOTAL HQLA**		**16,532**
22	**TOTAL NET CASH OUTLOWS**		**6,961**
23	**LIQUIDITY COVERAGE RATIO**		**240%**

12.2.3 Liquidity Coverage Ratio

The Country-level Group maintains a healthy liquidity position with the 4Q 2019 average All-Currency LCR and SGD LCR at 226% and 240% (above regulatory requirements of 50% and 100% respectively). The main drivers of the LCR are 1) movements in customer loans/deposits; 2) wholesale interbank lending/borrowing; 3) movements due to positions falling into or out of the LCR 30-day tenor and 4) derivative cashflows (for SGD LCR).

i. Composition of HQLA

The Country-level Group's pool of HQLA consists mainly of Level 1 HQLA (highly rated unencumbered government and central bank securities). These securities can be readily liquidated through sale or repurchase ("Repo") transactions into cash to meet cash flow obligations under liquidity stress scenarios.

ii. Currency Mismatch in the LCR

The Country-level Group can, if required, access the FX swap markets to manage any currency mismatch. This forms part of the Business As Usual ("BAU") activities undertaken by Balance Sheet Management ("BSM") for surplus deployment and managing liquidity risks (i.e. swap foreign currency surplus funds into SGD HQLA).

12.2.4 Liquidity and Funding Risk Management

HSBC has an internal liquidity and funding risk management framework ("LFRF") which aims to allow it to withstand very severe liquidity stresses. It is designed to be adaptable to changing business models, markets and regulations. Asset, Liability and Capital Management ("ALCM") is responsible for the application of the LFRF for the Country-level Group.

The elements of the LFRF are underpinned by a robust governance framework, the two major elements of which are:

- Asset and Liability management committee ("ALCO"); and
- Annual Internal Liquidity Adequacy Assessment process ("ILAAP") to ensure that all significant liquidity and funding risks are identified and assessed, and that an appropriate risk management framework and risk appetite is implemented to mitigate these risks.

Liquidity and Funding Risk Management Framework

The key aspects of the internal LFRF implemented by the Country-level Group to ensure an appropriate overall liquidity risk profile are:

- minimum LCR requirement (including individual currency LCR requirement);
- minimum Net Stable Funding Ratio ("NSFR") requirement;
- legal entity depositor concentration limit;
- 3-month and 12-month cumulative rolling term contractual maturity limits (covering deposits from banks, non-bank financial institutions and securities issued);
- analysis of off-balance sheet commitments;
- wholesale stress mismatches;
- annual Internal Liquidity Adequacy Assessment;
- intraday liquidity monitoring and limits;
- liquidity funds transfer pricing;
- Contingency Funding Plan ("CFP"); and
- forward looking funding assessments.

Overall Adequacy of Liquidity Risk management

The Internal Liquidity Adequacy Assessment ("ILAA") document sets out the Country-level Group's approach to liquidity and funding risk management and covers the following components:

- review of the appropriateness of the liquidity risk management framework;
- identification of all liquidity and funding risk by specific risk drivers commensurate with the balance sheet;
- liquidity stress testing to assess adequacy of liquidity risk buffers;
- calibration of risk tolerance and appetite levels; and
- assessment of the Basel Principles of Sound Liquidity Management.

Based on the lastest approved ILAA, Country-level Group:

- maintains liquidity resources, which are adequate in both amount and quality at all times, and ensures that there is no significant risk that its liabilities cannot be met as they fall due; and
- ensures its liquidity resources contain an adequate amount of HQLA and maintains a prudent funding profile.

Risk Management Teams

Whilst overall liquidity and funding management is an ALCO responsibility, the day-to-day management and monitoring rests with BSM and ALCM respectively. ALCM manages the balance sheet with a view to achieve efficient allocation and utilization of all resources. It assists senior management to review liquidity and funding risks to ensure their prudent management. Liquidity and funding risks are monitored daily and reported to ALCO regularly.

The BSM team within Global Markets is responsible for managing cash, short-term liquidity and funding for the Country-level group. This includes deployment of commercial surplus as well as accessing wholesale senior funding markets if needed.

Liquidity risk assurance is provided by the Risk team for the Country-level Group. The second line liquidity risk assurance is responsible for review and challenge of first line activities, and is responsible for policy and risk appetite/limit setting. In summary, the high-level responsibilities of the second line are as follows:

- to monitor compliance of first line (i.e. ALCM and BSM) within the internal LFRF/regulatory requirements;
- provide review and challenge to the first line on ALCO limit requests; and
- monitoring of ALCO risks against approved risk appetite measures.

Concentration of Sources of funding

The Country-level Group maintains a diversified funding base across retail and wholesale depositors. Balance Sheet and NSFR projections are regularly discussed in monthly ALCO meetings to ensure that the Country-level Group remains well-funded to support the business strategy. Internal metrics on concentration of funding are also embedded in ALCO limits to monitor funding risks.

Stress Testing

The Country-level Group conducts various regulatory and internal liquidity stress testing exercises (with different severity/scenarios that include longer time horizons beyond the 30-day LCR period) to strengthen the overall liquidity risk management. The stress tests results validate that the Country-level Group continues to hold sufficient HQLA to withstand a range of liquidity stress scenarios.

Country-level Contingency Funding Plan ("CFP")

The CFP ensures that the Country-level Group has an actionable plan in place to cope with a liquidity crisis. It establishes a collection of 1) warning indicators with predetermined triggers to detect any early signs of liquidity stress; and 2) specific mitigating actions that can be applied to address the stress scenario. The country-level CFP is reviewed and approved by ALCO annually.

For additional information on the Bank's liquidity and funding risk management, please refer to Note 32 of the bank's Financial Statements.

12.3 Net Stable Funding Ratio ("NSFR") Disclosure

The objective of NSFR is to ensure that banks maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. It is defined as the amount of Available Stable Funding ("ASF") relative to the amount of Required Stable Funding ("RSF").

In line with the approval by the MAS to comply with MAS Notice 649 "Minimum Liquid Assets and Liquidity Coverage Ratio" requirements at the Country-level Group basis, the Bank and Singapore Branch of The Hongkong and Shanghai Banking Corporation Limited ("Branch") comply with MAS Notice 652 "Net Stable Funding Ratio" requirements at the HSBC Singapore Country-level Group basis ("Country-level Group").

The following disclosures as per MAS Notice 653 "Net Stable Funding Ratio Disclosure" are consistent with compliance to MAS Notice 652, which is at the Country-level Group basis. The Country-level Group is required to maintain All-Currency NSFR of 50% on an on-going basis.

12.3.1 Country-level Group All-Currency NSFR for 4Q 2019

S$ million		Unweighted value by residual maturity				Weighted Value
		No Maturity	< 6 months	6 months to < 1 yr	≥ 1 yr	
ASF Item						
1	**Capital**	**1,637**	**-**	**-**	**-**	**1,637**
2	Regulatory capital	1,637	-	-	-	1,637
3	Other capital instruments	-	-	-	-	-
4	**Retail deposits and deposits from small business customers:**	**15,102**	**11,911**	**-**	**-**	**24,451**
5	Stable deposits	2,206	585	-	-	2,651
6	Less stable deposits	12,896	11,326	-	-	21,800
7	**Wholesale funding**	**18,375**	**29,867**	**1,618**	**3,444**	**21,537**
8	Operational deposits	8,974	0	0	0	4,487
9	Other wholesale funding	9,401	29,867	1,618	3,444	17,050
10	**Liabilities with matching interdependent assets**	**-**	**-**	**-**	**-**	**-**
11	**Other liabilities:**	**322**		**6,370**		**477**
12	NSFR derivative liabilities			3,670		
13	All other liabilities and equity not included in the above category	322	2,216	14	470	477
14	**Total ASF**					**48,101**
RSF Item						
15	**Total NSFR high quality liquid assets (HQLA)**					**1,170**
16	**Deposits held at other financial institutions for operational purposes**	**-**	**-**	**-**	**-**	**-**
17	**Performing loans and securities:**	**-**	**32,525**	**3,332**	**24,214**	**30,999**
18	Performing loans to financial institutions secured by Level 1 HQLA	-	5,116	-	-	512

S$ million		Unweighted value by residual maturity				Weighted Value
		No Maturity	< 6 months	6 months to < 1 yr	≥ 1 yr	
19	Performing loans to financial institutions secured by non-Level HQLA and unsecured performing loans to financial institutions	-	3,803	647	438	1,332
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	23,140	2,436	14,865	22,998
21	With a risk weight of less than or equal to 35% under MAS Notice 637's standardized approach to credit risk	-	-	-	-	-
22	Performing residential mortgages, of which:	-	467	249	8,912	6,158
23	With a risk weight of less than or equal to 35% under MAS Notice 637's standardized approach to credit risk	-	257	241	8,873	6,016
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	-	-
25	**Assets with matching interdependent liabilities**	-	-	-	-	-
26	**Other assets:**	**168**	**8,302**			**1,174**
27	Physical trade commodities, including gold	168				143
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		-			-
29	NSR derivative assets		3,532			-
30	NSFR derivative liabilities before deduction of variation margin posted		3,708			185
31	All other assets not included in the above categories	-	546	14	501	846
32	**Off-balance sheet items**		**50,901**			**226**
33	**Total RSF**					**33,569**
33	**Net Stable Funding Ratio (%)**					**143%**

12.3.2 Country-level Group All-Currency NSFR for 3Q 2019

	S$ million	Unweighted value by residual maturity				Weighted Value
		No Maturity	< 6 months	6 months to < 1 yr	≥ 1 yr	
ASF Item						
1	**Capital**	**1,637**	**-**	**-**	**-**	**1,637**
2	Regulatory capital	1,637	-	-	-	1,637
3	Other capital instruments	-	-	-	-	-
4	**Retail deposits and deposits from small business customers:**	**14,600**	**11,203**	**-**	**-**	**23,364**
5	Stable deposits	2,221	595	-	-	2,676
6	Less stable deposits	12,379	10,608	-	-	20,688
7	**Wholesale funding**	**17,983**	**26,372**	**1,731**	**3,222**	**21,714**
8	Operational deposits	9,238	-	-	-	4,619
9	Other wholesale funding	8,745	26,372	1,731	3,222	17,095
10	**Liabilities with matching interdependent assets**	**-**	**-**	**-**	**-**	**-**
11	**Other liabilities:**	**202**	**8,408**			**444**
12	NSFR derivative liabilities		3,887			
13	All other liabilities and equity not included in the above category	202	3,973	208	340	444
14	**Total ASF**					**47,158**
RSF Item						
15	**Total NSFR high quality liquid assets (HQLA)**					**1,323**
16	**Deposits held at other financial institutions for operational purposes**	**-**	**-**	**-**	**-**	**-**
17	**Performing loans and securities:**	**-**	**22,614**	**9,918**	**21,483**	**30,224**
18	Performing loans to financial institutions secured by Level 1 HQLA	-	1,024	-	-	102
19	Performing loans to financial institutions secured by non-Level HQLA and unsecured performing loans to financial institutions	-	5,273	752	420	1,587
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	15,852	8,926	12,223	22,429
21	With a risk weight of less than or equal to 35% under MAS Notice 637's standardized approach to credit risk	-	-	-	-	-
22	Performing residential mortgages, of which:	-	465	239	8,839	6,105
23	With a risk weight of less than or equal to 35% under MAS Notice 637's standardized approach to credit risk	-	252	237	8,800	5,965

S$ million		Unweighted value by residual maturity				Weighted Value
		No Maturity	< 6 months	6 months to < 1 yr	≥ 1 yr	
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	-	-
25	**Assets with matching interdependent liabilities**	**-**	**-**	**-**	**-**	**-**
26	**Other assets:**	**174**	**10,431**			**814**
27	Physical trade commodities, including gold	174				148
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		-			-
29	NSFR derivative assets		3,755			-
30	NSFR derivative liabilities before deduction of variation margin posted		3,908			-
31	All other assets not included in the above categories	-	2,397	13	358	667
32	**Off-balance sheet items**		**49,936**			**237**
33	**Total RSF**					**32,598**
33	**Net Stable Funding Ratio (%)**					**145%**

12.3.3 Net Stable Funding Ratio

The Country-level Group maintains a healthy funding profile with the 3Q19 and 4Q19 All-Currency NSFR at 145% and 143% respectively (above regulatory requirements of 50%). The main drivers of the NSFR are 1) movements in customer loans/deposits and 2) balance movements across the various residual maturity buckets.

The Country-level Group has a diversified funding base across retail and wholesale depositors and the funding structure remains stable. The quarter-on-quarter movement in NSFR is mainly driven by higher commercial surplus but offset by balance movements across the residual maturity buckets.

For additional information on the Bank's liquidity and funding risk management, please refer to Note 32 of the bank's Financial Statements.

13. Remuneration

13.1 Governance Framework and Oversight of Remuneration Practices

The Group Remuneration Committee is responsible for setting the principles, parameters and governance framework for the Group's remuneration policy applicable to all Group employees. With effect from 1 January 2018, a regional Remuneration Committee (HBAP RemCo) was established in line with revisions to Hong Kong Monetary Authority's Supervisory Policy Manual CG-1. The effectiveness and compliance of the Group's reward strategy as adopted is reviewed annually by the HBAP RemCo. All members of the Committee are independent non-executive Directors of HSBC Holdings plc.

The Bank is not required to set up a subsidiary remuneration committee, on the basis that the employees of the Bank, including the Bank's directors and executive officers, are subject to the remuneration framework and processes of the HSBC Group. In addition, the Bank annually reviews the remuneration framework to ensure that it aligns with the Corporate Governance regulation and guidance issued by the MAS.

13.2 Remuneration Strategy

HSBC's remuneration strategy is designed to reward competitively the achievement of long-term sustainable performance, and attract and motivate the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience. We believe that remuneration is an important tool for instilling the right behaviours, and driving and encouraging actions that are aligned to organisational values and the long-term interests of our stakeholders. HBAP's remuneration strategy, as approved by the Group Remuneration Committee and adopted subject to annual review by the Bank's Remuneration Committee, is based on the following principles:

- An alignment to performance at all levels (individual, business and Group) taking into account both 'what' has been achieved and 'how' it has been achieved. The 'how' helps ensure that performance is sustainable in the longer term, consistent with HSBC's values and risk and compliance standards.
- Being informed, but not driven by, market position and practice. Market benchmarks are sourced through independent specialists and provide an indication of the range of pay levels and employee benefits provided by our competitors.
- Considering the full-market range when making pay decisions for employees, taking into account the individual's and the Group's performance in any given year. An individual's pay will vary depending upon their performance.
- Compliance with relevant regulation across all of our countries and territories.

More details of the Bank's remuneration strategy are contained within the Annual Report and Accounts 2019 of HSBC Holdings plc.

13.3 Performance and Risk Management on Remuneration Structure

Please refer to the Performance and Risk management on remuneration structure at *http://www.hsbc.com/about-hsbc/corporate-governance/remuneration*

13.4 MAS Notice 637 Pillar 3 Remuneration Disclosures

The following tables show the remuneration awards made by the Bank to its Identified Staff and Material Risk Takers ('MRTs') for 2019. Individuals have been identified as MRTs based on the qualitative and quantitative criteria set out in the Regulatory Technical Standard EU 604/2014 and additional criteria determined by the Committee.

Table 1: Guaranteed Bonuses, Sign-on Awards and Severance Payments

Category	**Senior Management (Executive Board of the Bank) (Exclude MRT)**		**Material Risk Takers**	
	Number	**Amount (S$'000)**	**Number**	**Amount (S$'000)**
MRTs	0	0	4*	0
Guaranteed bonus awards	0	0	0	0
Sign-on awards	0	0	0	0
Severance payments	0	0	0	0

** The MRTs are part of Senior Management but their remuneration are not included under Senior Management*

Table 2: Breakdown of Remuneration Awarded in Current Financial Year (FY2019)

			(a)	**(b)**
			Senior Management	**Other Material Risk Takers**
1	**Fixed Remuneration**	Number of Employees	10	4
2		**Total Fixed Remuneration (3+5+7)**	**71%**	**54%**
3		Of which: Cash-based	71%	54%
4		Of which: Deferred	-	-
5		Of which: Shares or Other Share-linked Instruments	-	-
6		Of which: Deferred	-	-
7		Of which: Other Forms	-	-
8		Of which: Deferred	-	-
9	**Variable Remuneration**	Number of employees	10	4
10		**Total variable remuneration (11+13+15)**	**29%**	**46%**
11		Of which: Cash-based	26%	23%
12		Of which: Deferred	-	11%
13		Of which: Shares or Other Share-linked Instruments (1)	3%	24%
14		Of which: Deferred	3%	12%
15		Of which: Other Forms	-	-
16		Of which: Deferred	-	-
17	**Total remuneration (2+10)**		**100%**	**100%**

Note:
(1) Shares upon vesting are subject to a six-month retention period.

Table 3: Analysis of Deferred Remuneration

		(a)	(b)	(c)	(d)	(e)
	Deferred and Retained Remuneration [1]	**Total Outstanding Deferred Remuneration**	**of which: Total outstanding Deferred and Retained Remuneration Exposed to Ex post Explicit and/or Implicit Adjustments** [5]	**Total Amendment During the Year Due to Ex post Explicit Adjustments**	**Total Amendment During the Year Due to Ex post Implicit Adjustments**	**Total Deferred Remuneration Paid Out in the Financial Year**
1	Senior Management	100%	100%	-	-	100%
2	Cash[2][3]	0%	0%	-	-	0%
3	Shares[2][3][4]	100%	100%	-	-	100%
4	Share-linked Instruments	-	-	-	-	-
5	Other	-	-	-	-	-
6	Other Material Risk Takers	100%	100%	-	-	100%
7	Cash[2][3]	34%	34%	-	-	40%
8	Shares[2][3][4]	66%	66%	-	-	60%
9	Share-linked Instruments	-	-	-	-	-
10	Other	-	-	-	-	-

Note:

(1) The forms of variable remuneration and the proportion deferred are based on the seniority, role and responsibilities of employees and their level of total variable compensation.

(2) Outstanding, unvested, deferred remuneration is exposed to ex post explicit adjustments.

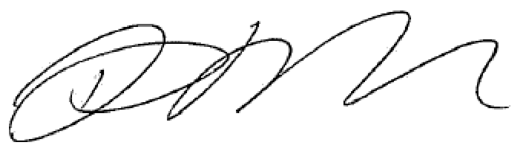
(3) There is no reduction of deferred remuneration and retained remuneration due to ex post explicit adjustments during 2019 via the application of malus and/or clawback.

(4) Outstanding, unvested, deferred shares are exposed to ex post implicit adjustments. The total value of these shares in 2019 are calculated based on the closing market share price of HSBC Holdings plc.

(5) Outstanding, unvested, deferred shares are exposed to ex post implicit adjustments. The total value of these shares in 2019 are calculated based on the closing market share price of HSBC Holdings plc as at 31 December of the respective financial years.

Attestation

The Pillar 3 disclosures as at 31 December 2019 have been prepared in accordance with the internal control processes approved by the Bank's Board of Directors.



Anthony William Cripps
Group General Manager and Chief Executive Officer

13 April 2020
Singapore