Liquidity Coverage Ratio ("LCR") Disclosure for 2Q 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. HBSC Bank (Singapore) Limited ("Subsidiary") and Singapore Branch of The Hongkong and Shanghai Banking Corporation Limited ("Branch") have obtained the approval of Monetary Authority of Singapore ("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%.

1) Average Country-level Group All-Currency LCR for 2Q 2019
(Number of data points: 91 for 2Q 2019)

(in SGD millions)		2Q 2019	
		Average Unweighted Value	Average Weighted Value
HIGH-QUALITY LIQUID ASSETS			
1	**Total high-quality liquid assets (HQLA)**		**21,430**
CASH OUTFLOWS			
2	Retail deposits and deposits from small business customers, of which:	24,360	2,310
3	Stable deposits	2,523	126
4	Less stable deposits	21,836	2,184
5	Unsecured wholesale funding, of which:	34,804	17,407
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	8,519	2,095
7	Non-operational deposits (all counterparties)	26,285	15,312
8	Unsecured debt	0	0
9	Secured wholesale funding		0
10	Additional requirements, of which:	5,923	2,790
11	Outflows related to derivative exposures and other collateral requirements	2,201	2,167
12	Outflows related to loss of funding on debt products	0	0
13	Credit and liquidity facilities	3,723	623
14	Other contractual funding obligations	768	768
15	Other contingent funding obligations	3,556	109
16	**TOTAL CASH OUTFLOWS**		**23,384**
CASH INFLOWS			
17	Secured lending (e.g. reverse repos)	2,868	0
18	Inflows from fully performing exposures	16,176	11,889
19	Other cash inflows	2,225	2,203
20	**TOTAL CASH INFLOWS**	21,268	**14,091**
21	**TOTAL HQLA**		**21,430**
22	**TOTAL NET CASH OUTLOWS**		**9,292**
23	**LIQUIDITY COVERAGE RATIO**		**233%**

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2) Average Country-level Group SGD LCR for 2Q 2019

(Number of data points: 91 for 2Q 2019)

	(in SGD millions)	2Q 2019 Average Unweighted Value	2Q 2019 Average Weighted Value
HIGH-QUALITY LIQUID ASSETS			
1	**Total high-quality liquid assets (HQLA)**		**15,249**
CASH OUTFLOWS			
2	Retail deposits and deposits from small business customers, of which:	12,770	1,151
3	Stable deposits	2,523	126
4	Less stable deposits	10,246	1,025
5	Unsecured wholesale funding, of which:	10,851	5,037
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	3,403	816
7	Non-operational deposits (all counterparties)	7,448	4,220
8	Unsecured debt	0	0
9	Secured wholesale funding		0
10	Additional requirements, of which:	23,408	21,745
11	Outflows related to derivative exposures and other collateral requirements	21,476	21,470
12	Outflows related to loss of funding on debt products	0	0
13	Credit and liquidity facilities	1,932	275
14	Other contractual funding obligations	517	517
15	Other contingent funding obligations	201	8
16	**TOTAL CASH OUTFLOWS**		**28,458**
CASH INFLOWS			
17	Secured lending (e.g. reverse repos)	2,846	0
18	Inflows from fully performing exposures	4,933	4,404
19	Other cash inflows	16,389	16,383
20	**TOTAL CASH INFLOWS**	24,168	**20,787**
21	**TOTAL HQLA**		**15,249**
22	**TOTAL NET CASH OUTLOWS**		**8,013**
23	**LIQUIDITY COVERAGE RATIO**		**194%**

3) Liquidity Coverage Ratio

The Country-level Group maintains a healthy liquidity position with the 2Q 2019 average All-Currency LCR and SGD LCR at 233% and 194% (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") team for surplus deployment and managing liquidity risks (i.e. swap foreign currency surplus funds into SGD HQLA).

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. The primary responsibility for managing liquidity and funding within the LFRF and risk appetite resides with the Asset and Liability Committee ("ALCO") that has been established at Country-level Group.

i. Liquidity and Funding Risk Management Framework

The LFRF has been constructed using the LCR and Net Stable Funding Ratio ("NSFR") regulatory framework as its initial foundation, with additional metrics, limits and overlays. These include:

- Depositor concentration limits
- 3-month and 12-month cumulative rolling term contractual maturity limits (covering deposits from banks, non-bank financial institutions and securities issued)
- Intraday liquidity monitoring and limits
- Minimum LCR requirement by currency
- Forward-looking funding assessment
- Annual Internal Liquidity Adequacy Assessment ("ILAA"). The ILAA process aims to:
    a) identify risks that are not reflected in the LFRF, and where required, to assess additional limits required; and
    b) validate the risk tolerance by demonstrating that reverse stress testing scenarios are acceptably remote and ensuring vulnerabilities have been assessed through the use of severe stress scenarios.

ii. Risk Management Teams

Whilst liquidity and funding management is an ALCO responsibility, the day-to-day management and monitoring rests with BSM and Asset, Liability and Capital Management ("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 Country-level group. This includes deployment of commercial surplus as well as accessing wholesale senior funding markets if needed.

iii. 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.

iv. 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.

v. 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.