

HSBC BANK (SINGAPORE) LIMITED
(Incorporated in Singapore)

Pillar 3 Disclosure – For the financial year ended 31 December 2018

HSBC BANK (SINGAPORE) LIMITED
(Incorporated in Singapore. Company Registration No. 201420624K)

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For the financial year ended 31 December 2018

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1. Introduction

HSBC Bank (Singapore) Limited (the "Bank") is incorporated in the Republic of Singapore and has its registered office at 21 Collyer Quay, #13-02 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.

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

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 following disclosures are made pursuant to Notice 637 "Notice on Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore" ("MAS Notice 637") issued by the Monetary Authority of Singapore ("MAS").

This public disclosure should be read in conjunction with the Bank's Financial Statement for the year ended 31 December 2018.

2. Capital Structure and Capital Adequacy

2.1 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 management 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 formally approved by the Board of Directors.

For additional information on the Bank's capital requirements, please refer to Note 33 of the Bank's Financial Statements.

2.2 Capital Adequacy Ratio

The below table discloses the Bank's Regulatory Capital, Capital Adequacy Ratio ("CAR") and Leverage Ratio. The CAR ratios are above the stipulated regulatory requirements set out in MAS Notice 637.

	At 31 Dec 2018 S\$ million	At 31 Dec 2017 S\$ million
Ordinary Shares Capital	1,530	1,530
Disclosed Reserves ¹	100	135
Regulatory Adjustments	(5)	(6)
Common Equity Tier 1 Capital	1,625	1,659
Tier 1 Capital	1,625	1,659
Allowances eligible as Tier 2 capital	67	22
Tier 2 Capital	67	22
Total Eligible Capital	1,692	1,681
Risk Weighted Assets (RWA)		
Credit Risk	8,153	5,456
Market Risk	4	7
Operational Risk	754	643
Total RWA	8,911	6,106
Capital Adequacy Ratios ²		
Common Equity Tier 1	18.24%	27.16%
Tier 1	18.24%	27.16%
Total	18.99%	27.53%
Leverage Ratio	6.68%	6.83%

Note:

¹ Disclosed reserves mainly comprises of retained earnings, property revaluation reserve and other reserves.

² A capital conservation buffer ("CCB") of 2.5% and a countercyclical buffer ("CCyB") of up to 2.5% will be phased in from 2016 to 2019. The CCB was 0.625% on 1 January 2016 and increases 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 in which the Bank has private sector credit exposures. The effective country-specific CCyB requirement for Hong Kong was 1.875% and the applicable weight was 1.03%.

Pursuant to section 9 of the Banking Act of Singapore, the Bank is required to maintain a 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 disclosed reserves which comprises mainly of retained earnings, property revaluation reserve and other reserves.

The Bank's capital requirements are based on the Standardised Approach in accordance with MAS Notice 637 and the Bank's CAR for 31 December 2018 are computed on this basis.

As at 31 December 2018, the CAR ratios are above the stipulated regulatory requirements for CET 1 CAR, Tier 1 CAR and Total CAR of 6.5%, 8% and 10% respectively.

2.3 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	1.875%	76		
Others		7,239		
Total		7,315	0.02%	*

* Represents amounts less than S\$0.5 million.

2.4 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, to 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 33 of the Bank's Financial Statements.

3. Composition of Regulatory Capital

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

3.1 Reconciliation of Regulatory Capital to Balance Sheet as at 31 December 2018

	Balance Sheet as per Financial Statement S\$ million	Under Regulatory Scope of Consolidation S\$ million	Reference to Section 3.2
Assets			
Cash and balances with central banks	487		
Singapore government treasury bills and securities	3,304		
Other government treasury bills and securities	521		
Derivative assets	4		
Balance and placements with, and loans to, banks	82		
Loans and advances to customers	13,062		
of which: Provisions eligible for inclusion in T2 Capital	-	67	A
Amount due from intermediate holding company	35		
Amount due from related corporation	5,799		
Other assets	138		
Property, plant and equipment	99		
Intangible assets	5	(4)	B
Total Assets	23,536		
Liabilities			
Derivative liabilities	6		
Deposits and balances of banks	31		
Deposits of non-bank customers	18,577		
Amounts due to intermediate holding company	76		
Amounts due to related corporations	2,893		
Other liabilities	156		
Current tax liabilities	16		
Deferred taxation	*		
Total Liabilities	21,755		
NET ASSETS	1,781		
Equity			
Share capital	1,530	1,530	C
Reserves	56	24	D
Accumulated profits	195	76	E
Valuation adjustments	-	(1)	F
Total Equity	1,781		

* Represents amounts less than S\$0.5 million.

3.2 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 "Amount" shows the amounts used in the computation of regulatory capital and CAR.

The alphabetic cross-references in the column "Cross Reference to Section 3.1" relates to reconciliation of Regulatory Capital to balance sheet disclosed on page 5.

MAS Notice 637 specifies the computation of provisions 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.

		Amount S\$ million	Cross Reference to Section 3.1
Common Equity Tier 1 Capital: Instruments and Reserves			
1	Paid-up ordinary shares and share premium (if applicable)	1,530	C
2	Retained earnings	76	E
3 [#]	Accumulated other comprehensive income and other disclosed reserves	24	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	1,630	
Common Equity Tier 1 Capital: Regulatory Adjustments			
7	Valuation adjustment pursuant to Part VIII of MAS Notice 637	(1)	F
8	Goodwill, net of associated deferred tax liability	-	
9 [#]	Intangible assets, net of associated deferred tax liability	(4)	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)	-	
20 [#]	Mortgage servicing rights (amount above 10% threshold)	-	

		Amount S\$ million	Cross Reference to Section 3.1
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	(5)	
29	Common Equity Tier 1 capital (CET1)	1,625	
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	<i>Transitional: Ineligible capital instruments (pursuant to paragraphs 6.5.3 and 6.5.4)</i>	-	
34	AT1 capital instruments issued by fully-consolidated subsidiaries that meet criteria for inclusion	-	
35	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-	
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)	-	
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)	1,625	
Tier 2 Capital: Instruments and Provisions			
46	Tier 2 capital instruments and share premium (if applicable)	-	
47	<i>Transitional: Ineligible capital instruments (pursuant to paragraphs 6.5.3 and 6.5.4)</i>	-	

		Amount S\$ million	Cross Reference to Section 3.1
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	67	A
51	Tier 2 capital before regulator adjustments	67	
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 of unconsolidated financial institutions in which Reporting Bank does not hold a major stake	-	
55	Investments in Tier 2 capital instruments 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)	67	
59	Total capital (TC = T1 + T2)	1,692	
60	Total risk weighted assets	8,911	
Capital Ratios (As a Percentage of Risk Weighted Assets)			
61	Common Equity Tier 1 CAR	18.24%	
62	Tier 1 CAR	18.24%	
63	Total CAR	18.99%	
64	Bank-specific buffer requirement	8.39%	
65	of which: capital conservation buffer requirement	1.875%	
66	of which: bank specific countercyclical buffer requirement	0.019%	
67	of which: G-SIB buffer requirement (if applicable)	-	
68	Common Equity Tier 1 available after meeting the Reporting Bank's minimum capital requirements	8.99%	
National Minima			
69	Minimum CET1 CAR	6.50%	
70	Minimum Tier 1 CAR	8.00%	
71	Minimum Total CAR	10.00%	
Amounts Below the Thresholds for Deduction (Before Risk Weighting)			
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)	67	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	102	

		Amount S\$ million	Cross Reference to Section 3.1
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	-	
Capital Instruments Subject to Phase-Out Arrangements (Only Applicable Between 1 Jan 2013 and 1 Jan 2022)			
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 redemption and maturities)	-	

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.

3.3. 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)	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

4. Linkages between Financial Statements and Regulatory Exposures

4.1. 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.

S\$'million	31 Dec 18					
	(a)	(b)	(c)	(d)	(e)	(f)
	Carrying amounts as reported in balance sheet of published financial statements	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	487	487	-	-	-	-
Singapore government treasury bills and securities	3,304	3,304	-	-	-	-
Other government treasury bills and securities	521	521	-	-	-	-
Derivative assets	4	-	4	-	4	-
Balance and placements with, and loans to, banks	82	82	-	-	-	-
Loans & advances to customers	13,062	13,062	-	-	-	-
Amounts due from immediate holding company	35	35	-	-	-	-
Amounts due from related corporations	5,799	3,652	2,147	-	-	-
Other assets	138	130	-	-	-	8
Property, plant and equipment	99	66	-	-	-	33
Intangible assets	5	5	-	-	-	-
Total Assets	23,536	21,344	2,151	-	4	41

¹ CCR – counterparty credit risk

31 Dec 18					
(a)	(b)	(c)	(d)	(e)	(f)
Carrying amounts as reported in balance sheet of published financial statements	Subject to credit risk requirements	Subject to CCR requirements ¹	Subject to securitization framework	Subject to market risk requirements	Not subject to capital requirements or subject to deduction from regulatory capital
S\$' million					
Carrying amount of items					
Liabilities					
Derivatives liabilities	6	-	6	-	-
Deposits and balances of banks	31	-	-	-	31
Deposits of non-bank customers	18,577	-	-	-	18,577
Amounts due to intermediate holding company	76	-	-	-	76
Amounts due to related corporation	2,893	-	-	-	2,893
Other liabilities	156	-	-	-	156
Current tax liabilities	16	-	-	-	16
Deferred taxation	*	-	-	-	*
Total Liabilities	21,755	-	6	-	21,749

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, amounts due to/from bank, etc can be subject to regulatory capital charges for credit risk, counterparty credit risk and market risk.

* Represents amounts less than S\$0.5 million.

4.2 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 18			
	(a)	(b)	(c)	(d)
	Total	Items subject to -		
		Credit risk requirements	CCR requirements	Securitisation framework
Assets carrying amount under regulatory scope of consolidation	23,536	21,344	2,151	-
Liabilities carrying amount under regulatory scope of consolidation	-	-	-	-
Total net amount under regulatory scope of consolidation	23,536	21,344	2,151	-
Off-balance sheet amounts	6,628	163	-	-
Differences due to derivatives and securities financing transaction	-	-	(2,076)	-
Differences due to impairment allowances	-	67	-	-
Other differences	-	12	-	-
Exposure amounts considered for regulatory purposes	30,164	21,586	75	-

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.

4.3 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 committed 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 impairment allowances: The carrying values of assets in the financial statements are net of impairment provisions - 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 specific allowances
- (iv) Other differences: These mainly include differences arising from the recognition of credit risk mitigation

4.4 Prudent Valuation Adjustments

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

	31 Dec 18							
	(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
Closeout uncertainty	-	1	*	-	-	1	*	1
of which: midmarket value	-	1	*	-	-	1	*	1
of which: closeout cost	-	-	-	-	-	-	-	-
of which: concentration	-	*	-	-	-	*	*	*
Early termination	-	-	-	-	-	-	-	-
Model risk	-	-	-	-	-	-	-	-
Operational risk	-	-	-	-	-	-	-	-
Investing and funding costs	-	-	-	-	-	-	-	-
Unearned credit spreads	-	-	-	-	-	-	-	-
Future administrative costs	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total adjustment	-	1	*	-	-	1	*	1

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 to sell an asset or paid to transfer 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.

* Represents amounts less than S\$0.5 million.

5. Leverage Ratio

Leverage Ratio Summary Comparison Table

	Item	31 Dec 18 S\$ million
1	Total consolidated assets as per published financial statements	23,536
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	62
5	Adjustment for SFTs	-
6	Adjustment for off-balance sheet items	663
7	Other adjustments	58
8	Exposure Measure	24,319

Leverage Ratio Common Disclosure Template

	Item	31 Dec 18 S\$ million	30 Sep 18 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)	21,452	19,888
2	Asset amounts deducted in determining Tier 1 Capital	(5)	-
3	Total exposure measures of on-balance sheet items (excluding derivative transactions and SFTs)	21,447	19,888
Derivative Exposure Measures			
4	Replacement cost associated with all derivative transactions (net of the eligible cash portion of variation margins)	4	*
5	Potential future exposure associated with all derivative transactions	58	12
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	62	12
SFT Exposure Measures			
12	Gross SFT assets (with no recognition of accounting netting), after adjusting for sales accounting	2,147	2,264
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	2,147	2,264
Exposure Measures of Off-Balance Sheet Items			
17	Off-balance sheet items at notional amount	5,703	5,506
18	Adjustments for calculation of exposure measures of off-balance sheet items	(5,040)	(4,882)
19	Total exposure measures of off-balance sheet items	663	624
Capital and Total Exposures			
20	Tier 1 capital	1,625	1,595
21	Total exposures	24,319	22,788
Leverage Ratio			
22	Leverage ratio	6.68%	7.00%

* Represents amounts less than S\$0.5 million.

6. Overview of Risk Weighted Assets

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

During the current year, the Bank entered into a Funded Risk participation arrangement with a related corporation to sub-participate in the corporate loans of that related corporation. Loans and advances to customers include S\$2,771 million pursuant to the risk participation agreement. The increase in RWA between December and September 2018 was due to an increase in corporate loans sub-participated by the Bank.

S\$ million		RWA		Minimum Capital Requirement ¹
		31-Dec 2018	30-Sep 2018	31-Dec 2018
1	Credit Risk (excluding Counterparty Credit Risk)	8,138	7,702	814
2	of which: SA(CR) and SA(EQ)	8,138	7,702	814
3	of which: IRBA and IRBA(EQ) for Equity exposures under the PD/LGD Method	-	-	-
4	Counterparty Credit Risk	15	2	2
5	of which: Current Exposure Method	12	2	1
6	of which: CCR Internal Models Method	-	-	-
7	IRBA(EQ) for Equity exposures under the Simple Risk Weight Method or the IMM	-	-	-
8	Equity investments in funds – Look Through Approach	-	-	-
9	Equity investments in funds – Mandate-Based Approach	-	-	-
10	Equity investments in funds – Fall Back Approach	-	-	-
10a	Equity investment in funds –Partial Use of an Approach	-	-	-
11	Unsettled Transactions	-	*	-
12	Securitisation exposures in the Banking Book	-	-	-
13	of which: IRBA(SE) - RBM and IAM	-	-	-
14	of which: IRBA(SE) – SF	-	-	-
15	of which: SA(SE)	-	-	-
16	Market Risk	4	7	0
17	of which: SA(MR)	4	7	0
18	of which: IMA	-	-	-
19	Operational Risk	754	718	75
20	of which: BIA	-	-	-
21	of which: SA(OR)	754	718	75
22	of which: AMA	-	-	-
23	Amounts below the thresholds for deduction (subject to 250% Risk Weight)	-	-	-
24	Floor Adjustment	-	-	-
25	Total	8,911	8,429	891

¹ Minimum capital requirements are calculated at 10% of RWA.

* Represents amounts less than S\$0.5 million.

7. Credit Risk

7.1 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 RWAs.

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 to the risks faced by the HSBC Group and its operations.

Further details on credit risk management can be found in Note 33 of the Bank's Financial Statements.

7.2 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 for comprehensive assessment of the obligor. 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.

7.2 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 retail segment 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 for 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; where stable, less so. 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.

7.3 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, otherwise 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

7.4 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.

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

A default is considered to have occurred with regard to a particular non-retail and 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

7.4.1 Disclosure on Restructured Exposures

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

A renegotiated 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. Such credit facilities, except for retail 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.

Retail renegotiated credit exposures as at 31 December 2018 is S\$80 million.

7.4.2 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.

S\$ million		(a)	(b)	(c)	(d)
		Gross carrying amount of ⁽¹⁾		Impairment allowances	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans ⁽²⁾	156	13,001	(95)	13,062
2	Debt securities	-	3,825	-	3,825
3	Off-balance sheet exposures	-	6,628	-	6,628
4	Total	156	23,454	(95)	23,515

(1) Refers to the accounting value of the assets before any impairment allowances but after write-offs.

(2) Excludes inter-bank loans

7.4.3 Changes in Stock of Defaulted Loans and Debt Securities

S\$ million		(a)
1	Defaulted loans and debt securities as at 30 Jun 2018	160
2	Loans and debt securities that have defaulted in second half of 2018	45
3	Returned to non-defaulted status	(11)
4	Amounts written-off	(22)
5	Other changes	(16)
6	Defaulted loans and debt securities as at 31 Dec 2018 (1+2-3-4±5)	156

7.4.3 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 18 S\$ million
Singapore	21,114
South East Asia	470
Greater China	489
Rest of the World	1,537
Total	23,610

Breakdown by Industry

	31 Dec 18 S\$ million
Agriculture, forestry and fishing	6
Mining and quarrying	81
Manufacture	196
Electricity, gas, steam and air-conditioning supply	104
Water supply, sewerage waste management and remediation	4
Wholesale and retail trade, repair of motor vehicles and motorcycles	465
Transportation and storage	181
Accommodation and food	45
Publishing, audiovisual and broadcasting	80
Professional, scientific and technical activities	52
Real Estate	1,611
Financial institutions, investment and holding companies	5,911
Government	3,825
Housing loans	8,498
Professional and private individuals	2,551
Total	23,610

Breakdown by Residual Maturity

	31 Dec 18 S\$ million
Up to 1 year	12,312
More than 1 year	11,298
Total	23,610

7.4.3 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 2018) by geographical areas and industry.

Breakdown by Geographical Areas

S\$ million		31 Dec 2018		
		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

* Represents amounts less than S\$0.5 million.

Breakdown by Industry

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

* Represents amounts less than S\$0.5 million.

Breakdown by Ageing Analysis:

S\$ million	31 Dec 2018
Current and past due up to 30 days	113
Past due 31 to 90 days	29
Past due more than 90 days	14
Total	156

7.5 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 industrial properties located outside of Singapore, plant and machinery and underlying assets financed through specialised lending.

S\$ million		(a)	(b)	(c)	(d)	(e)
		Exposures unsecured	Exposures secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Loans	13,050	12	12	-	-
2	Debt Securities	3,825	-	-	-	-
3	Total	16,875	12	12	-	-
	Of which: defaulted	156	-	-	-	-

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

S\$ million		(a)	(b)	(c)	(d)	(e)	(f)
		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	68	-	68	-	3	4%
2	Central government and central bank	4,352	-	4,352	-	-	0%
3	PSE	-	-	-	-	-	-
4	MDB	-	-	-	-	-	-
5	Bank	5,895	5,803	3,760	62	765	20%
6	Corporate	2,780	55	2,780	26	2,806	100%
7	Regulatory retail	1,738	46	1,731	12	1,321	76%
8	Residential Mortgage	8,577	602	8,573	124	3,057	35%
9	CRE	28	*	28	*	28	100%
10	Equity – SA(EQ)	-	-	-	-	-	-
11	Past due exposures	40	-	40	-	52	130%
12	Higher-risk categories	-	-	-	-	-	-
13	Other exposures	121	-	121	-	121	100%
14	Total	23,599	6,506	21,453	224	8,153	38%

* Represents amounts less than S\$0.5 million.

⁽¹⁾ Total RWA divided by the exposures post-CCF and post-CRM.

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

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
											Total credit exposure amount (post-CCF and post CRM) ⁽¹⁾
S\$ million	Asset classes	0%	10%	20%	35%	50%	75%	100%	150%	Others	
1	Cash items	53	-	15	-	-	-	-	-	-	68
2	Central government and central bank	4,352	-	-	-	-	-	-	-	-	4,352
3	PSE	-	-	-	-	-	-	-	-	-	-
4	MDB	-	-	-	-	-	-	-	-	-	-
5	Bank	-	-	3,822	-	-	-	-	-	-	3,822
6	Corporate	-	-	-	-	-	-	2,806	-	-	2,806
7	Regulatory retail	-	-	-	-	-	1,692	51	-	-	1,743
8	Residential Mortgage	-	-	-	8,670	-	16	11	-	-	8,697
9	CRE	-	-	-	-	-	-	28	-	-	28
10	Equity – SA(EQ)	-	-	-	-	-	-	-	-	-	-
11	Past due exposures	-	-	-	-	-	-	16	24	-	40
12	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
13	Other exposures	-	-	-	-	-	-	121	-	-	121
14	Total	4,405	-	3,837	8,670	-	1,708	3,033	24	-	21,677

⁽¹⁾ Total EAD 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.

8. Counterparty Credit Risk (CCR)

8.1 Overview

CCR risk arises for derivatives and SFT. It is calculated for both the 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 transaction 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.

8.2 Analysis of Counterparty Credit Risk Exposure by Approach

		(a)	(b)	(c)	(d)	(e)	(f)
		Replacement Cost	Potential Future Exposure	Effective EPE	α Used for Computing Regulatory EAD	EAD (Post-CRM)	RWA
S\$ million							
1	Current Exposure Method (for Derivatives)	4	58			62	12
2	CCR Internal Models Method (for Derivatives and SFTs)			-	-	-	-
3	FC(SA) (for SFTs)					-	-
4	FC(CA) (for SFTs)					13	3
5	VaR for SFTs					-	-
6	Total						15

8.3 CVA Risk Capital Requirements

The Bank had no Credit Valuation Adjustment (“CVA”) as at 31 December 2018.

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

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	-	-	75	-	-	-	-	-	-	75
Corporate	-	-	-	-	-	-	-	-	-	-
Regulatory retail	-	-	-	-	-	-	*	-	-	*
Other exposures	-	-	-	-	-	-	-	-	-	-
Total	-	-	75	-	-	-	*	-	-	75

* Represents amounts less than S\$0.5 million.

S\$ million		(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
		Segregated	Unsegregated	Segregated	Unsegregated		
1	Cash - domestic currency	-	-	-	-	-	-
2	Cash - other currencies	-	-	-	-	-	-
3	Domestic sovereign debt	-	-	-	-	2,150	-
4	Other sovereign debt	-	-	-	-	-	-
5	Corporate bonds	-	-	-	-	-	-
6	Equity securities	-	-	-	-	-	-
7	Other collateral	-	-	-	-	-	-
8	Total	-	-	-	-	2,150	-

8.5 Exposures to Central Clearing Counterparties

There are no exposures to central clearing counterparties as at 31 December 2018.

9. Market Risk

9.1 Overview

Market risk is the risk that movements in market risk factors including 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, by products and risks types. Market liquidity, risk appetite and business needs are the primary factors in determining the level of limits set. HSBC Group authorizes only those offices with sufficient derivatives product expertise and appropriate control systems to trade derivative products. The Bank is one of such authorised offices.

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

Further details on Market Risk management can be found in Note 33 of the Bank's Financial Statements

The Bank's market risk RWA as at 31 December 2018 is summarized below:

9.2 Market Risk under Standardised Approach

S\$ million		31 Dec 18 RWA
Products Excluding Options		
1	Interest rate risk (general and specific)	*
2	Equity risk (general and specific)	-
3	Foreign exchange risk	4
4	Commodity risk	-
Options		
5	Simplified approach	*
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	Total	4

* Represents amounts less than S\$0.5 million.

10 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 33 of the Bank’s Financial Statements.

11. Other Risk

11.1 Interest Rate Risk in 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 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 under the following scenarios:

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

The sensitivities represent the Bank's assessment of the change to a hypothetical base case NII, assuming a static balance sheet and no management actions from BSM.

	Singapore Dollar S\$ million	US Dollar S\$ million	Other Currency S\$ million	Total S\$ million
Change in Jan 2019 to Dec 2019 NII (based on balance sheet at 31 Dec 2018)				
Parallel Up	69	18	(8)	79
Parallel Down	(61)	(59)	19	(101)

For additional information on the Bank's governance over IRRBB, please refer to Note 33 of the Bank's Financial Statements.

12. Remuneration

12.1 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 HBAP RemCo annually reviews the effectiveness and compliance of the Group's reward strategy. All members of the Committee are independent nonexecutive Directors of the Group Board.

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.

12.2 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 with the Group, while performing their role in the long-term interests of our shareholders.

The remuneration strategy, as approved by the Group 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 HSBC 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.

Based on these principles, the approach to determine remuneration is based on the following objectives:

- Offering employees a competitive total reward package. This includes market competitive fixed pay levels, which ensure employees are able to meet their basic day-to-day needs;
- Maintaining an appropriate balance between fixed pay, variable pay and employee benefits, taking into consideration an employee's seniority, role, individual performance and the market;
- Ensuring variable pay is awarded on a discretionary basis and dependent upon HSBC Group, business and individual performance;
- Offering employee benefits that are valued by a diverse workforce, appropriate at the local market level and support HSBC's commitment to employee well-being;
- Promoting employee share ownership through variable pay deferral or voluntary enrolment in an all employee share plan; and
- Linking reward packages to performance and behaviour with no bias towards an individual's ethnicity, gender, age, or any other characteristic.

Please refer to the *HSBC remuneration practices and governance* at <http://www.hsbc.com/about-hsbc/corporate-governance/remuneration> and the Capital and Risk Management Pillar 3 Disclosures of HSBC Holdings plc for details of the major design characteristics of the remuneration system including alignment between risk and reward.

12.3 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>

12.4 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 2018. 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	5*	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 (FY2018)

		(a) Senior Management	(b) Other Material Risk Takers
1	Fixed Remuneration	Number of Employees	8
2		Total Fixed Remuneration (3+5+7)	67%
3		Of which: Cash-based	67%
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	8
10		Total variable remuneration (11+13+15)	33%
11		Of which: Cash-based	29%
12		Of which: Deferred	-
13		Of which: Shares or Other Share-linked Instruments ⁽¹⁾	4%
14		Of which: Deferred	4%
15		Of which: Other Forms	-
16		Of which: Deferred	-
17	Total remuneration (2+10)		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⁾	23%	23%	-	-	23%
8	Shares ⁽²⁾⁽³⁾⁽⁴⁾	77%	77%	-	-	77%
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 2018 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 2018 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 2018 are calculated based on the closing market share price of HSBC Holdings plc as at 31 December of the respective financial years.

13. Attestation

The Pillar 3 disclosures as at 31 December 2018 have been prepared in accordance with the internal control processes approved by the Bank's Board of Directors.

A handwritten signature in black ink, consisting of a stylized 'A' followed by a series of loops and a final flourish.

Anthony William Cripps
Group General Manager and Chief Executive Officer

26 April 2019
Singapore