HSBC HOLDINGS PLC
Form 6-K
September 05, 2017
FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of

the Securities Exchange Act of 1934

For the month of September 2017

Commission File Number: 001-14930

HSBC Holdings plc

42nd Floor, 8 Canada Square, London E14 5HQ, England

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F).

Form 20-F X Form 40-F ......

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ______

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ______

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934).

Yes....... No X

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-..............).

Pillar 3 Disclosures at 30 June 2017

Contents

Certain defined terms

Unless the context requires otherwise, 'HSBC Holdings' means HSBC Holdings plc and 'HSBC', the 'Group', 'we', 'us' and 'our' refer to HSBC Holdings together with its subsidiaries. Within this document the Hong Kong Special Administrative Region of the People's Republic of China is referred to as 'Hong Kong'. When used in the terms 'shareholders' equity' and 'total shareholders' equity', 'shareholders' means holders of HSBC Holdings ordinary shares and those preference shares and capital securities issued by HSBC Holdings classified as equity. The abbreviations '$m' and '$bn' and '$tn' represent millions, billions (thousands of millions) and trillions of US dollars, respectively.

Tables

Regulatory framework for disclosures

HSBC is supervised on a consolidated basis in the United Kingdom ('UK') by the Prudential Regulation Authority ('PRA'), which receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. Individual banking subsidiaries are directly regulated by their local banking supervisors, who set and monitor their local capital adequacy requirements. In most jurisdictions, non-banking financial subsidiaries are also subject to the supervision and capital requirements of local regulatory authorities.

At a consolidated Group level, we calculate capital for prudential regulatory reporting purposes using the Basel III framework of the Basel Committee on Banking Supervision ('the Basel Committee') as implemented by the European Union ('EU') in the amended Capital Requirements Directive and Regulation ('CRD IV'), and in the PRA Rulebook for the UK banking industry. The regulators of Group banking entities outside the EU are at varying stages of implementation of the Basel III framework, so local regulation in 2017 may have been on the basis of the Basel I, II or III frameworks.

The Basel III framework is structured around three 'pillars': the Pillar 1 minimum capital requirements and Pillar 2 supervisory review process are complemented by Pillar 3 which concerns market discipline. The aim of Pillar 3 is to produce disclosures that allow market participants to assess the scope of application by banks of the Basel Committee's framework and the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, and hence their capital adequacy.

The PRA's final rules adopted national discretions in order to accelerate significantly the transition timetable to full 'end point' CRD IV compliance.

Pillar 3 disclosures

Our Pillar 3 disclosures at 30 June 2017 comprise all information required under Pillar 3, both quantitative and qualitative. They are made in accordance with Part 8 of the Capital Requirements Regulation within CRD IV and as recommended by the European Banking Authority ('EBA') guidelines on disclosure requirements issued in December 2016. Additionally, we continue to present a number of Basel Committee's templates where these do not overlap with the EBA guidelines. These disclosures are supplemented by specific additional requirements of the PRA and discretionary disclosures on our part.

The Pillar 3 disclosures are governed by the Group's disclosure policy framework as approved by the Group Audit Committee ('GAC'). Pillar 3 requires all material risks to be disclosed, enabling a comprehensive view of a bank's risk profile.

Where disclosures have been enhanced, or are new, we do not generally restate or provide prior-year comparatives. The capital resources tables track the position from a CRD IV transitional to an end-point basis. Furthermore, specific rows and columns in the tables which are not considered to be relevant to HSBC's activities have been omitted.

Pillar 3 requirements may be met by inclusion in other disclosure media. Where we adopt this approach, references are provided to the relevant pages of the Interim Report 2017 or to other locations.

We continue to engage constructively with the UK authorities and industry associations to improve the transparency and comparability of UK banks' Pillar 3 disclosures.

Regulatory developments

Basel Committee

During the first half of 2017, the Basel Committee proposed further revisions to the regulatory capital framework. In particular, it published:

- a second consultation regarding the identification and management of step-in risk;
- the interim regulatory treatment and transitional requirements for International Financial Reporting Standard 9, Financial Instruments ('IFRS 9') provisions;
- the final Phase 2 Pillar 3 standards; and
- a consultation to revise the global systemically important banks ('G-SIB') assessment framework.

In addition, the Basel Committee confirmed that it has largely completed the technical work needed to revise the Basel III regulatory capital framework, including the approaches to credit risk, operational risk and the leverage ratio. The only outstanding area is the proposal to implement a capital floor for modelled risk-weighted assets ('RWAs'), where the final calibration and associated transitional provisions are expected. In all instances, the final standards will have to be transposed into the relevant local law before coming into effect.

Financial Stability Board

In July 2017, the Financial Stability Board ('FSB') expanded its resolution reform policy framework with the publication of its 'Guiding Principles on the Internal Total Loss-absorbing Capacity of G-SIBs ('Internal TLAC')'. These guidelines supplement the FSB's TLAC standard published in November 2015. Again, this needs to be incorporated into the relevant local law before coming into effect.

European Union

In the EU, elements of the Basel Committee's and FSB's reforms are being implemented through revisions to the CRD IV and the EU resolution framework. The key components include changes to the market risk and counterparty credit risk frameworks, a binding leverage ratio and the regulatory recognition of IFRS 9. It also includes details of the minimum requirements for TLAC, which in the EU is known as the 'Minimum Requirements for own funds and Eligible Liabilities' ('MREL'). These changes are expected to be finalised by 2019 and apply from 1 January 2021, with the exception of the rules on MREL and the transitional capital provisions for IFRS 9, which are expected to apply from 1 January 2019 and 1 January 2018, respectively.

In June, the EU reached agreement on the new securitisation capital rules. This is expected to be implemented on 1 January 2019 for new transactions and on 1 January 2020 for existing positions.

Bank of England

In the UK, the Bank of England ('BoE') published its policy on setting MREL in November 2016. Elements of this policy remain outstanding, including the application of MREL within groups and the treatment of holdings of TLAC instruments. Meanwhile, in March 2017, HSBC received from the BoE its indicative MREL requirement applicable to HSBC Holdings plc and its European Resolution Group (comprised of HSBC Bank plc and its subsidiaries). This includes interim MREL requirements effective from 1 January 2019 and final requirements effective from 1 January 2022. The BoE also formally confirmed 'multiple-point-of-entry' as the preferred resolution strategy for HSBC. In May, the BoE published the quantum of MREL requirements for major UK banks.

In June 2017, the Financial Policy Committee ('FPC') raised the countercyclical buffer rate for UK exposures to 0.5%, to apply from 27 June 2018. It will consider in November whether a further increase to 1% should take effect from November 2018.

In June 2017, the BoE also consulted on the UK leverage ratio framework, proposing to exclude claims on central banks from the leverage exposure measure and, as a result, recalibrating the minimum leverage ratio for HSBC from 3% to 3.25% of tier 1 capital, to take effect during 2017.

Structure of the regulatory group

Subsidiaries engaged in insurance activities are excluded from the regulatory consolidation by excluding assets, liabilities and post-acquisition reserves, leaving the Group's investment

in these insurance subsidiaries to be recorded at cost and deducted from common equity tier 1 ('CET1') capital (subject to thresholds).

The regulatory consolidation also excludes special purpose entities ('SPEs') where significant risk has been transferred to third parties. Exposures to these SPEs are risk-weighted as securitisation positions for regulatory purposes.

Participating interests in banking associates are proportionally consolidated for regulatory purposes by including our share of assets, liabilities, profit and loss, and risk-weighted assets ('RWAs') in accordance with the PRA's application of EU legislation. Non-participating significant investments along with non-financial associates are deducted from capital (subject to thresholds).

Table 1: Reconciliation of balance sheets – financial accounting to regulatory scope of consolidation

	Ref	Accounting balance sheet $m	Deconsolidation of insurance/ other entities $m	Consolidation of banking associates $m	Regulatory balance sheet $m
Assets					
Cash and balances at central banks		163,353	(43)	1,177	164,487
Items in the course of collection from other banks		7,129	—	26	7,155
Hong Kong Government certificates of indebtedness		31,943	—	—	31,943
Trading assets		320,037	(334)	2	319,705
Financial assets designated at fair value		27,937	(27,239)	—	698
Derivatives		229,719	(143)	56	229,632
Loans and advances to banks		86,633	(1,798)	1,390	86,225
Loans and advances to customers		919,838	(3,303)	12,919	929,454
– of which: impairment allowances on IRB portfolios	h	(4,884)	—	—	(4,884)
Reverse repurchase agreements – non-trading		196,834	424	1,642	198,900
Financial investments		385,378	(58,605)	2,959	329,732
Assets held for sale		2,301	—	—	2,301
– of which: impairment allowances on IRB portfolios	h	(115)	—	—	(115)
Capital invested in insurance and other entities		—	2,406	—	2,406
Prepayments, accrued income and other assets		70,592	(3,491)	330	67,431
– of which: retirement benefit assets	i	7,036	—	—	7,036
Current tax assets		1,054	(39)	—	1,015
Interests in associates and joint ventures		21,071	(350)	(3,826)	16,895
– of which: positive goodwill on acquisition	e	500	(14)	—	486
Goodwill and intangible assets	e	22,653	(6,888)	—	15,765
Deferred tax assets	f	5,971	199	2	6,172
Total assets at 30 Jun 2017		2,492,443	(99,204)	16,677	2,409,916
Liabilities and equity					
Hong Kong currency notes in circulation		31,943	—	—	31,943
Deposits by banks		64,230	(107)	559	64,682
Customer accounts		1,311,958	(45)	15,100	1,327,013
Repurchase agreements – non-trading		145,306	—	—	145,306
Items in the course of transmission to other banks		7,799	—	—	7,799
Trading liabilities		202,401	819	—	203,220
Financial liabilities designated at fair value		93,163	(6,256)	—	86,907
– of which:					
included in tier 1	m	437	—	—	437
included in tier 2	n, q	24,182	—	—	24,182
Derivatives		223,413	3	55	223,471
Debt securities in issue		63,289	(2,787)	324	60,826
Liabilities of disposal groups held for sale		620	—	—	620
Accruals, deferred income and other liabilities		42,724	1,207	499	44,430
Current tax liabilities		1,186	(47)	—	1,139
Liabilities under insurance contracts		81,147	(81,147)	—	—
Provisions		4,379	(18)	140	4,501
– of which: credit-related contingent liabilities and contractual commitments on IRB portfolios	h	217	—	—	217
Deferred tax liabilities		1,886	(1,070)	—	816
Subordinated liabilities		21,213	1	—	21,214

– of which:					
included in tier 1	k, m	1,800	—	—	1,800
included in tier 2	n, o, q	19,413	—	—	19,413
Total liabilities at 30 Jun 2017		2,296,657	(89,447	) 16,677	2,223,887
Called up share capital	a	10,188	—	—	10,188
Share premium account	a, k	12,069	—	—	12,069
Other equity instruments	j, k	20,830	—	—	20,830
Other reserves	c, g	4,472	1,564	—	6,036
Retained earnings	b, c	140,837	(10,584	)—	130,253
Total shareholders' equity		188,396	(9,020	)—	179,376
Non-controlling interests	d, l, m, p	7,390	(737	)—	6,653
– of which: non-cumulative preference shares issued by subsidiaries included in tier 1 capital	m	270	—	—	270
Total equity at 30 Jun 2017		195,786	(9,757	)—	186,029
Total liabilities and equity at 30 Jun 2017		2,492,443	(99,204	) 16,677	2,409,916

The references (a) – (q) identify balance sheet components that are used in the calculation of regulatory capital on page 7.

Pillar 3 Disclosures at 30 June 2017

Table 1: Reconciliation of balance sheets – financial accounting to regulatory scope of consolidation (continued)

	Ref	Accounting balance sheet $m	Deconsolidation of insurance/ other entities $m	Consolidation of banking associates $m	Regulatory balance sheet $m
Assets					
Cash and balances at central banks		128,009	(27)	1,197	129,179
Items in the course of collection from other banks		5,003	—	26	5,029
Hong Kong Government certificates of indebtedness		31,228	—	—	31,228
Trading assets		235,125	(198)	1	234,928
Financial assets designated at fair value		24,756	(24,481)	—	275
Derivatives		290,872	(145)	77	290,804
Loans and advances to banks		88,126	(1,845)	922	87,203
Loans and advances to customers		861,504	(3,307)	12,897	871,094
– of which: impairment allowances on IRB portfolios	h	(5,096)	—	—	(5,096)
Reverse repurchase agreements – non-trading		160,974	344	1,444	162,762
Financial investments		436,797	(54,904)	3,500	385,393
Assets held for sale		4,389	(7)	—	4,382
– of which:					
goodwill and intangible assets	e	1	—	—	1
impairment allowances on IRB portfolios	h	(146)	—	—	(146)
Capital invested in insurance and other entities		—	2,214	—	2,214
Prepayments, accrued income and other assets		59,520	(3,066)	306	56,760
– of which: retirement benefit assets	i	4,714	—	—	4,714
Current tax assets		1,145	(118)	—	1,027
Interests in associates and joint ventures		20,029	—	(4,195)	15,834
– of which: positive goodwill on acquisition	e	488	—	(475)	13
Goodwill and intangible assets	e	21,346	(6,651)	481	15,176
Deferred tax assets	f	6,163	176	5	6,344
Total assets at 31 Dec 2016		2,374,986	(92,015)	16,661	2,299,632
Liabilities and equity					
Hong Kong currency notes in circulation		31,228	—	—	31,228
Deposits by banks		59,939	(50)	441	60,330
Customer accounts		1,272,386	(44)	14,997	1,287,339
Repurchase agreements – non-trading		88,958	—	—	88,958
Items in course of transmission to other banks		5,977	—	—	5,977
Trading liabilities		153,691	643	1	154,335
Financial liabilities designated at fair value		86,832	(6,012)	—	80,820
– of which:					
included in tier 1	m	411	—	—	411
included in tier 2	n, q	23,172	—	—	23,712
Derivatives		279,819	193	64	280,076
Debt securities in issue		65,915	(3,547)	662	63,030
Liabilities of disposal groups held for sale		2,790	—	—	2,790
Accruals, deferred income and other liabilities		41,501	1,810	495	43,806
Current tax liabilities		719	(26)	—	693

Liabilities under insurance contracts		75,273	(75,273)	—	—
Provisions		4,773	(18)	—	4,755
– of which: credit-related contingent liabilities and contractual commitments on IRB portfolios	h	267	—	—	267
Deferred tax liabilities		1,623	(981)	1	643
Subordinated liabilities		20,984	1	—	20,985
– of which:					
included in tier 1	k, m	1,754	—	—	1,754
included in tier 2	n, o, q	18,652	—	—	18,652
Total liabilities at 31 Dec 2016		2,192,408	(83,304)	16,661	2,125,765
Called up share capital	a	10,096	—	—	10,096
Share premium account	a, k	12,619	—	—	12,619
Other equity instruments	j, k	17,110	—	—	17,110
Other reserves	c, g	(1,234)	1,735	—	501
Retained earnings	b, c	136,795	(9,442)	—	127,353
Total shareholders' equity		175,386	(7,707)	—	167,679
Non-controlling interests	d, l, m, p	7,192	(1,004)	—	6,188
– of which: non-cumulative preference shares issued by subsidiaries included in tier 1 capital	m	260	—	—	260
Total equity at 31 Dec 2016		182,578	(8,711)	—	173,867
Total liabilities and equity at 31 Dec 2016		2,374,986	(92,015)	16,661	2,299,632

Capital and RWAs

The main features of HSBC's capital instruments are set out in the Annual Report and Accounts 2016. Information on those instruments classified as liabilities under IFRSs is included in

Note 28 Subordinated liabilities on pages 244 to 247. Information on those instruments classified as equity under IFRSs is included in Note 32 Called up share capital and other equity instruments on pages 253 to 255.

Own funds

Table 2: Own funds disclosure

Ref*		Ref†	At 30 Jun 2017 $m	CRD IV prescribed residual amount $m	Final CRD IV text $m
	Common equity tier 1 ('CET1') capital: instruments and reserves				
1	Capital instruments and the related share premium accounts		20,852		20,852
	– ordinary shares	a	20,852		20,852
2	Retained earnings	b	124,203		124,203
3	Accumulated other comprehensive income (and other reserves)	c	6,757		6,757
5	Minority interests (amount allowed in consolidated CET1)	d	4,496		4,496
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	b	3,718		3,718
6	Common equity tier 1 capital before regulatory adjustments		160,026		160,026
	Common equity tier 1 capital: regulatory adjustments				
7	Additional value adjustments		(1,201)		(1,201)
8	Intangible assets (net of related deferred tax liability)	e	(16,114)		(16,114)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	f	(1,476)		(1,476)
11	Fair value reserves related to gains or losses on cash flow hedges	g	55		55
12	Negative amounts resulting from the calculation of expected loss amounts	h	(3,426)		(3,426)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		2,656		2,656
15	Defined-benefit pension fund assets	i	(5,513)		(5,513)
16	Direct and indirect holdings of own CET1 instruments		(40)		(40)
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)		(6,058)		(6,058)
28	Total regulatory adjustments to common equity tier 1		(31,117)	—	(31,117)
29	Common equity tier 1 capital		128,909	—	128,909
	Additional tier 1 ('AT1') capital: instruments				
30	Capital instruments and the related share premium accounts		14,979	—	14,979
31	– classified as equity under IFRSs	j	14,979	—	14,979
33	Amount of qualifying items and the related share premium accounts subject to phase out from AT1	k	6,621	(6,621)	—
34	Qualifying tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	l, m	2,095	(1,917)	178

35	– of which: instruments issued by subsidiaries subject to phase out	m	1,584	(1,584	)—
36	Additional tier 1 capital before regulatory adjustments		23,695	(8,538	)15,157
	Additional tier 1 capital: regulatory adjustments				
37	Direct and indirect holdings of own AT1 instruments		(60)		(60)
41b	Residual amounts deducted from AT1 capital with regard to deduction from tier 2 ('T2') capital during the transitional period		(50	)50	—
	– direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities		(50	)50	—
43	Total regulatory adjustments to additional tier 1 capital		(110	)50	(60)
44	Additional tier 1 capital		23,585	(8,488	)15,097
45	Tier 1 capital (T1 = CET1 + AT1)		152,494	(8,488	)144,006
	Tier 2 capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	n	16,849		16,849
47	Amount of qualifying items and the related share premium accounts subject to phase out from T2	o	4,746	(4,746	)—

Pillar 3 Disclosures at 30 June 2017

Table 2: Own funds disclosure (continued)

Ref*		Ref†	At 30 Jun 2017 $m	CRD IV prescribed residual amount $m	Final CRD IV text $m
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	p, q	10,290	(10,223)	67
49	– of which: instruments issued by subsidiaries subject to phase out	q	10,236	(10,236)	—
51	Tier 2 capital before regulatory adjustments		31,885	(14,969)	16,916
	Tier 2 capital: regulatory adjustments				
52	Direct and indirect holdings of own T2 instruments		(40)		(40)
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)		(447)	(50)	(497)
57	Total regulatory adjustments to tier 2 capital		(487)	(50)	(537)
58	Tier 2 capital		31,398	(15,019)	16,379
59	Total capital (TC = T1 + T2)		183,892	(23,507)	160,385
60	Total risk-weighted assets		876,118	—	876,118
	Capital ratios and buffers				
61	Common equity tier 1		14.7%		14.7%
62	Tier 1		17.4%		16.4%
63	Total capital		21.0%		18.3%
64	Institution specific buffer requirement		2.70%		
65	– capital conservation buffer requirement		1.25%		
66	– countercyclical buffer requirement		0.20%		
67a	– Global Systemically Important Institution (‘G-SII’) buffer		1.25%		
68	Common equity tier 1 available to meet buffers		8.6%		
	Amounts below the threshold for deduction (before risk weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		4,213		
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		13,497		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		5,765		
	Applicable caps on the inclusion of provisions in tier 2				
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		2,267		
79	Cap for inclusion of credit risk adjustments in T2 under IRB approach		3,015		
	Capital instruments subject to phase out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)				
82	Current cap on AT1 instruments subject to phase out arrangements		8,652		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		1,526		
84	Current cap on T2 instruments subject to phase out arrangements		14,982		

85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	6,056

* The references identify the lines prescribed in the European Banking Authority (‘EBA’) template. Lines represented in this table are those lines which are applicable and where there is a value.

† The references (a) – (q) identify balance sheet components on page 5 which are used in the calculation of regulatory capital.

Leverage ratio

Our leverage ratio calculated in accordance with CRD IV was 5.7% at 30 June 2017, up from 5.4% at 31 December 2016. This was mainly due to increased capital.

In 2016, following recommendations from the Bank of England's Financial Policy Committee ('FPC'), a modification to exclude qualifying central bank balances from the leverage exposure measure was made.

In June 2017, the FPC recommended that the PRA increase the minimum requirement of the UK leverage ratio from 3% to 3.25%. This is intended to compensate for the reduction in the capital requirement resulting from the modification to the UK leverage exposure measure. This increase is expected to come into effect before the end of the year.

At 30 June 2017, our UK minimum leverage ratio requirement of 3% was supplemented by an additional leverage ratio buffer of 0.4% and a countercyclical leverage ratio buffer of 0.1%.

These additional buffers translate into capital values of $10.4bn and $3.2bn respectively. We comfortably exceeded these leverage requirements.

The risk of excessive leverage is managed as part of HSBC's global risk appetite framework and monitored using a leverage ratio metric within our risk appetite statement ('RAS'). The RAS articulates the aggregate level and types of risk that HSBC is willing to accept in its business activities in order to achieve its strategic business objectives. The RAS measures are monitored via the risk appetite profile report, which includes comparisons of actual performance against the risk appetite and tolerance thresholds assigned to each metric, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately. The risk appetite profile report is presented monthly to the Risk Management Meeting of the Group Management Board ('RMM') and the Group Risk Committee ('GRC').

Table 3: Summary reconciliation of accounting assets and leverage ratio exposures

Ref*		At 30 Jun 2017 $bn	31 Dec 2016 $bn
1	Total assets as per published financial statements	2,492.4	2,375.0
	Adjustments for:		
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(82.5)	(75.4)
4	– derivative financial instruments	(106.0)	(158.6)
5	– securities financing transactions ('SFTs')	12.5	10.1
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	239.9	223.1
7	– other	(23.3)	(19.8)
8	Total leverage ratio exposure	2,533.0	2,354.4

* The references identify the lines prescribed in the EBA template. Lines represented in this table are those lines which are applicable and where there is a value.

Table 4: Leverage ratio common disclosure

Ref*		At 30 Jun 2017 $bn	31 Dec 2016 $bn
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1,967.6	1,844.4
2	(Asset amounts deducted in determining tier 1 capital)	(33.8)	(34.4)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	1,933.8	1,810.0
	Derivative exposures		

4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	29.3	43.7
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	120.5	110.2
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs	5.1	5.9
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(26.0)	(30.6)
8	(Exempted central counterparty ('CCP') leg of client-cleared trade exposures)	(12.8)	(4.1)
9	Adjusted effective notional amount of written credit derivatives	167.5	216.4
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(160.0)	(209.3)
11	Total derivative exposures	123.6	132.2
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	317.8	266.6
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(94.5)	(87.9)
14	Counterparty credit risk exposure for SFT assets	12.4	10.4
16	Total securities financing transaction exposures	235.7	189.1
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	781.4	757.7
18	(Adjustments for conversion to credit equivalent amounts)	(541.5)	(534.6)
19	Total off-balance sheet exposures	239.9	223.1
	Capital and total exposures		
20	Tier 1 capital	144.0	127.3
21	Total leverage ratio exposure	2,533.0	2,354.4
22	Leverage ratio (%)	5.7	5.4
EU-23	Choice of transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in

* The references identify the lines prescribed in the EBA template. Lines represented in this table are those which are applicable and where there is a value.

Pillar 3 Disclosures at 30 June 2017

Table 5: Leverage ratio – Split of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		At	
		30 Jun 2017	31 Dec 2016
Ref*		$bn	$bn
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures)	1,967.6	1,844.4
EU-2	– trading book exposures	296.3	267.5
EU-3	– banking book exposures	1,671.3	1,576.9
	'banking book exposures' comprises:		
EU-4	covered bonds	1.4	1.1
EU-5	exposures treated as sovereigns	488.2	504.4
EU-6	exposures to regional governments, multilateral development banks ('MDBs'), international organisations and public sector entities not treated as sovereigns	8.3	6.0
EU-7	institutions	78.0	67.6
EU-8	secured by mortgages of immovable properties	266.4	254.6
EU-9	retail exposures	85.0	84.6
EU-10	corporate	555.1	532.4
EU-11	exposures in default	11.3	12.4
EU-12	other exposures (e.g. equity, securitisations and other non-credit obligation assets)	177.6	113.8

* The references identify the lines prescribed in the EBA template. Lines represented in this table are those lines which are applicable and where there is a value.

Capital buffers

The geographical breakdown and institution specific countercyclical capital buffer disclosure is published annually on the HSBC website, www.hsbc.com. Our G-SIB Indicators Disclosure is published annually on the HSBC website, www.hsbc.com.

Pillar 1 minimum capital requirements and RWA flow

Pillar 1 covers the minimum capital resource requirements for credit risk, counterparty credit risk ('CCR'), equity, securitisation, market risk and operational risk. These requirements are expressed in terms of RWAs.

Risk category	Scope of permissible approaches	Approach adopted by HSBC
Credit risk	The Basel Committee's framework applies three approaches of increasing sophistication to the calculation of Pillar 1 credit risk capital requirements. The most basic level, the standardised approach, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are grouped into broad categories and standardised risk weightings are applied to these categories. The next level, the foundation IRB ('FIRB') approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty's probability of default ('PD'), but subjects their quantified estimates of EAD and loss given default ('LGD') to standard supervisory parameters. Finally, the advanced IRB ('AIRB') approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD.	For consolidated Group reporting, we have adopted the advanced IRB approach for the majority of our business. Some portfolios remain on the standardised or foundation IRB approaches: • pending the issuance of local regulations or model approval; • following supervisory prescription of a non-advanced approach; or • under exemptions from IRB treatment.
Counterparty credit risk	Four approaches to calculating CCR and determining exposure values are defined by the Basel Committee: mark-to-market, original exposure, standardised and Internal Model Method ('IMM'). These exposure values are used to determine capital requirements unde	We use the mark-to-market and IMM

	one of the credit risk approaches: standardised, foundation IRB or advanced IRB.	approaches for CCR. Details of the IMM permission we have received from the PRA can be found in the Financial Services Register on the PRA website. Our aim is to increase the proportion of positions on IMM over time.
Equity	For the non-trading book, equity exposures can be assessed under standardised or IRB approaches.	For Group reporting purposes, all non-trading book equity exposures are treated under the standardised approach.
Securitisation	Basel specifies two approaches for calculating credit risk requirements for securitisation positions in non-trading books: the standardised approach and the IRB approach, which incorporates the Ratings Based Method ('RBM'), the Internal Assessment Approach ('IAA') and the Supervisory Formula Method ('SFM'). Securitisation positions in the trading book are treated within the market risk framework, using the CRD IV standard rules.	For the majority of the non-trading book securitisation positions we use the IRB approach, and within this principally the RBM, with lesser amounts on the IAA and the SFM. We also use the standardised approach for an immaterial amount of

		non-trading book positions. We follow the CRD IV standard rules for the securitisation positions in the trading book.
Market risk	Market risk capital requirements can be determined under either the standard rules or the Internal Models Approach ('IMA'). The latter involves the use of internal value at risk ('VaR') models to measure market risks and determine the appropriate capital requirement. In addition to the VaR models, other internal models include Stressed VaR ('SVaR'), Incremental Risk Charge ('IRC') and Comprehensive Risk Measure.	The market risk capital requirement is measured using internal market risk models, where approved by the PRA, or under the standard rules. Our internal market risk models comprise VaR, stressed VaR and IRC. Non-proprietary details of the scope of our IMA permission are available in the Financial Services Register on the PRA website. We are in compliance with the requirements set out in Articles 104 and 105 of the Capital Requirements

Operational risk	The Basel Committee allows firms to calculate their operational risk capital requirement under the basic indicator approach, the standardised approach or the advanced measurement approach.	Regulation. We currently use the standardised approach in determining our operational risk capital requirement. We have in place an operational risk model that is used for economic capital calculation purposes.

Pillar 3 Disclosures at 30 June 2017

Table 6: Overview of RWAs

		At 30 Jun 2017	31 Mar 2017	30 Jun 2017
		RWAs	RWAs	Capital[1] requirements
		$bn	$bn	$bn
1	Credit risk (excluding counterparty credit risk)	601.9	592.8	48.2
2	– standardised approach	130.2	122.5	10.4
3	– foundation IRB approach	26.9	26.0	2.2
4	– advanced IRB approach	444.8	444.3	35.6
6	Counterparty credit risk	61.5	61.2	4.9
7	– mark-to-market	36.7	36.3	2.9
10	– internal model method	10.0	9.9	0.8
11	– risk exposure amount for contributions to the default fund of a central counterparty	0.7	0.7	0.1
12	– credit valuation adjustment	14.1	14.3	1.1
13	Settlement risk	0.3	0.2	—
14	Securitisation exposures in the non-trading book	22.7	21.3	1.8
15	– IRB ratings based method	19.7	18.5	1.6
16	– IRB supervisory formula method	0.2	0.2	—
17	– IRB internal assessment approach	1.6	1.5	0.1
18	– standardised approach	1.2	1.1	0.1
19	Market risk	43.6	38.9	3.5
20	– standardised approach	3.8	4.8	0.3
21	– internal models approach	39.8	34.1	3.2
23	Operational risk	98.0	98.0	7.9
25	– standardised approach	98.0	98.0	7.9
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	48.1	45.5	3.8
29	Total	876.1	857.9	70.1

1 'Capital requirements' here and in all tables where the term is used, represents the Pillar 1 capital charge at 8% of RWAs.

Credit Risk, including amounts below the thresholds for deduction

RWAs increased by $11.8bn in the second quarter of the year, including an increase of $10.6bn due to foreign currency translation differences. The increase of $1.2bn (excluding foreign exchange translation) was mainly due to an increase in asset size of $10.5bn driven by corporate lending growth in Asia and Europe, partly offset by reductions due to management initiatives to reduce RWAs.

Counterparty credit risk

The $0.3bn increase in RWAs is primarily due to an increase in asset size of $1.7bn, partly offset by RWA initiatives of $1.6bn.

Securitisation in non-trading book

The $1.4bn RWA increase in the second quarter of the year, arises predominantly from new securitisation positions.

Market risk

RWAs increased by $4.7bn, driven by a $5.4bn increase in risk levels, partly offset by RWA initiatives of $0.7bn.

Table 7: RWA flow statements of credit risk exposures under the IRB approach[1, 2]

		Three months to		
		30 Jun 2017	31 Mar 2017	30 Jun 2017
		RWAs	RWAs	Capital requirements
		$bn	$bn	$bn
1	RWAs at the beginning of the period	470.3	468.5	37.6
2	Asset size	0.7	2.0	0.1
3	Asset quality	(4.1)	—	(0.3)
4	Model updates	0.7	—	0.1
5	Methodology and policy	(2.5)	1.2	(0.2)
6	Acquisitions and disposals	(1.5)	(5.7)	(0.1)
7	Foreign exchange movements	8.1	4.3	0.6
9	RWAs at the end of the period	471.7	470.3	37.8

1 This table includes RWA initiatives of $12.1bn allocated across the RWA flow layers to which they relate.
2 Securitisation positions are not included in this table.

12 HSBC Holdings plc

RWAs under the IRB approach increased by $1.4bn in the second quarter of the year, including an increase of $8.1bn due to foreign currency translation differences.
The $6.7bn decrease in RWAs excluding foreign currency translation includes the following movements:

- $4.1bn as a result of improvements in asset quality and lending growth in lower risk portfolios.
- $2.5bn in methodology and policy movements mainly as a result of management initiatives.

Table 8: RWA flow statements of CCR exposures under the IMM[1]

		Three months to		
		30 Jun 2017	31 Mar 2017	30 Jun 2017
		RWAs	RWAs	Capital requirements
		$bn	$bn	$bn
1	RWAs at the beginning of the period	14.3	14.4	1.1
2	Asset size	0.7	(0.4)	0.1
3	Asset quality	(0.2)	(0.2)	—
4	Model updates	—	1.0	—
5	Methodology and policy	(0.7)	(0.5)	(0.1)
9	RWAs at the end of the period	14.1	14.3	1.1

1 This table includes RWA initiatives of $0.9bn allocated across the RWA flow layers to which they relate.
The $0.2bn decrease in counterparty credit risk RWAs under the IMM during the second quarter of the year is driven by RWA initiatives of $0.9bn, partially offset by an increase in asset size of $0.7bn.

Table 9: RWA flow statements of market risk exposures under the IMA[1]

		VaR	Stressed VaR	IRC	Other	Total RWAs[1]	Total capital requirements
		$bn	$bn	$bn	$bn	$bn	$bn
1	RWAs at 1 Apr 2017	9.5	12.3	10.1	2.2	34.1	2.7
2	Movement in risk levels	0.4	1.9	1.7	2.5	6.5	0.5
3	Model updates/changes	(1.6)	(0.2)	—	—	(1.8)	(0.1)
4	Methodology and policy	0.5	0.5	—	—	1.0	0.1
8	RWAs at 30 Jun 2017	8.8	14.5	11.8	4.7	39.8	3.2
1	RWAs at 1 Jan 2017	8.7	15.8	9.5	2.5	36.5	2.9
2	Movement in risk levels	0.8	(3.5)	0.6	(0.3)	(2.4)	(0.2)
3	Model updates/changes	—	—	—	—	—	—
4	Methodology and policy	—	—	—	—	—	—
8	RWAs at 31 Mar 2017	9.5	12.3	10.1	2.2	34.1	2.7

1 This table includes RWA initiatives of $0.7bn allocated across the RWA flow layers to which they relate.
The $5.7bn increase in RWAs during the second quarter of the year is driven by movements in risk levels of $6.5bn and a methodology update to VaR multipliers of $1bn, partially offset by a $1.8bn reduction as a result of model updates.

Pillar 3 Disclosures at 30 June 2017

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from other products, such as guarantees and credit derivatives and from holding assets in the form of debt securities. Credit risk represents our largest regulatory capital

requirement. There have been no material changes to our policies and practices, which are described in the Capital and Risk Management Pillar 3 Disclosures 2016.

Credit quality of assets

We are a universal bank with a conservative approach to credit risk. This is reflected in our credit risk profile being diversified across a number of asset classes and geographies with a credit quality profile concentrated in the higher quality bands.

Table 10: Credit quality of assets

		At 30 Jun 2017				31 Dec 2016			
		Gross carrying values of		Allowances/ impairments	Net values (a+b-c)	Gross carrying values of		Allowances/impairments	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures			Defaulted exposures	Non-defaulted exposures		
		$bn	$bn	$bn	$bn	$bn	$bn	$bn	$bn
1	Loans	16.6	1,198.9	8.0	1,207.5	17.9	1,067.8	8.3	1,077.4
2	Debt securities	—	279.6	—	279.6	—	377.4	—	377.4
3	Off-balance sheet exposures	1.9	743.8	0.2	745.5	1.5	735.0	0.3	736.2
4	Total	18.5	2,222.3	8.2	2,232.6	19.4	2,180.2	8.6	2,191.0

Defaulted exposures

The accounting definition of impaired and the regulatory definition of default are generally aligned. For particular retail exposures regulatory default is identified at 180 days past due, while the exposures are identified as impaired at 90 days

past due. In the retail portfolio in the US, for accounting purposes, a renegotiation would normally trigger identification as 'impaired', whereas for regulatory purposes, default is identified mainly based on the 180 days past due criterion.

Table 11: Changes in stock of defaulted loans and debt securities

		Footnote	6 months to 30 Jun 2017	12 months to 31 Dec 2016
			$bn	$bn
1	Defaulted loans and debt securities at the beginning of the period		17.9	22.7
2	Loans and debt securities that have defaulted since the last reporting period		3.2	8.6
3	Returned to non-defaulted status		(1.2)	(1.5)
4	Amounts written off		(1.1)	(2.8)
5	Other changes	1	(0.1)	(5.1)
7	Repayments		(2.1)	(4.0)
6	Defaulted loans and debt securities at the end of the period		16.6	17.9

1 Other changes include foreign exchange and assets held for sale in default.

Risk mitigation

Our approach when granting credit facilities is to do so on the basis of capacity to repay, rather than placing primary reliance on credit risk mitigants. Depending on a customer's standing and the type of product, facilities may be provided unsecured. Mitigation of credit risk is a key aspect of effective risk management and takes many forms. Our general policy is to promote the use of credit risk mitigation, justified by commercial prudence and capital efficiency. Specifically, detailed policies cover the acceptability, structuring and terms with regard to the availability of credit risk mitigation; for example, in the form of collateral security.

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.

Table 12: Standardised approach – credit conversion factor ('CCF') and credit risk mitigation ('CRM') effects

		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWAs and RWA density	
		On-balance sheet amount $bn	Off-balance sheet amount $bn	On-balance sheet amount $bn	Off-balance sheet amount $bn	RWAs $bn	RWA density %
	Asset classes[1]						
1	Central governments or central banks	170.3	0.9	174.5	0.8	14.8	8
2	Regional governments or local authorities	2.6	0.3	2.6	—	0.9	33
3	Public sector entities	0.1	0.1	0.1	—	0.1	100
4	Multilateral development banks	0.2	—	0.2	—	—	7
5	International organisations	2.2	—	2.2	—	—	—
6	Institutions	2.6	—	2.4	—	1.1	48
7	Corporates	90.7	78.7	74.9	12.1	81.6	94
8	Retail	23.0	45.7	21.7	0.4	16.3	74
9	Secured by mortgages on immovable property	26.6	1.0	26.6	0.2	9.7	36
10	Exposures in default	3.4	0.3	3.3	0.1	4.3	128
11	Higher-risk categories	2.4	1.8	2.4	1.7	6.2	150
14	Collective investment undertakings	0.6	—	0.6	—	0.6	100
15	Equity	16.2	—	16.2	—	36.4	224
16	Other items	13.0	—	13.0	—	6.3	49
17	Total at 30 Jun 2017	353.9	128.8	340.7	15.3	178.3	50
1	Central governments or central banks	161.9	1.5	166.2	1.1	14.7	9
2	Regional governments or local authorities	2.9	0.3	2.9	—	0.9	32
3	Public sector entities	—	—	—	—	—	—
4	Multilateral development banks	0.2	—	0.2	—	—	5
5	International organisations	2.7	—	2.7	—	—	—
6	Institutions	2.2	—	2.1	—	1.0	46
7	Corporates	80.2	79.9	66.3	12.1	75.0	96
8	Retail	22.7	44.2	21.6	0.4	16.3	74
9	Secured by mortgages on immovable property	25.5	0.8	25.5	0.2	9.3	36
10	Exposures in default	3.2	0.4	3.2	0.1	4.3	130
11	Higher-risk categories	2.1	1.4	2.1	1.3		