HSBC Holdings plc

Pillar 3 Disclosures at 30 September 2020

HSBC

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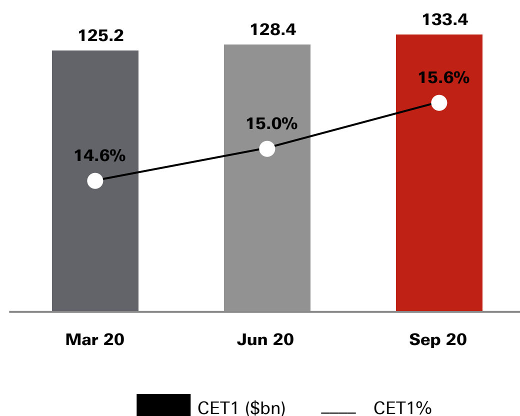
Unless the context requires otherwise, 'HSBC Holdings' means HSBC Holdings plc and 'HSBC', the 'Group', 'we', 'us' and 'our' refer to HSBC Holdings together with its subsidiaries. Within this document the Hong Kong Special Administrative Region of the People's Republic of China is referred to as 'Hong 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' represent millions and billions (thousands of millions) of US dollars respectively.

This document should be read in conjunction with the *Earnings Release 3Q20*, which has been published on our website www.hsbc.com.

Introduction

Highlights

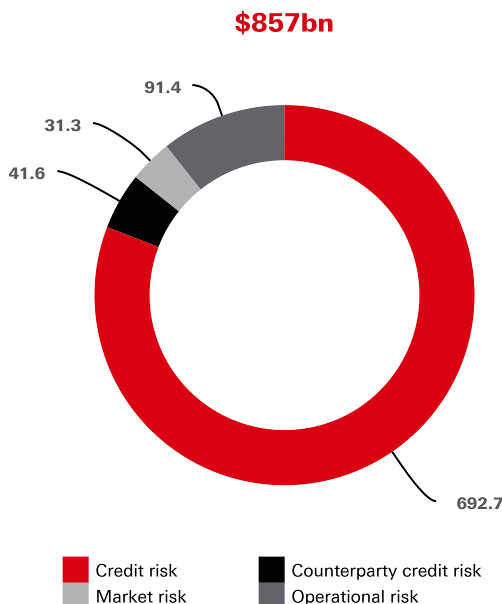
Common equity tier 1: $133.4bn and 15.6%[1]



1 *Capital figures and ratios are reported on a CRR II transitional basis for capital instruments.*

Risk-weighted assets by risk type at 30 September 2020 ($bn)

$857bn



Regulatory framework for disclosures

We are supervised on a consolidated basis in the 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, which 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, capital is calculated for prudential regulatory reporting purposes using the Basel III framework of the Basel Committee on Banking Supervision ('Basel'), as implemented by the European Union ('EU') in the revisions to the Capital Requirements Regulation, as implemented ('CRR II'), and in the PRA Rulebook for the UK banking industry. The regulators of

Group banking entities outside the EU are at varying stages of implementing the Basel III framework, so the Group may have been subject to local regulations that were on the basis of the Basel I, II or III frameworks.

The Basel framework is structured around three 'pillars': the Pillar 1 minimum capital requirements and Pillar 2 supervisory review process are complemented by Pillar 3 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 framework and the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, and hence their capital adequacy.

Pillar 3 disclosures

Our *Pillar 3 Disclosures at 30 September 2020* comprises both quantitative and qualitative information required under Pillar 3. These disclosures are made in accordance with Part Eight of CRR II and the European Banking Authority's ('EBA') guidelines on disclosure requirements. They are supplemented by specific additional requirements of the PRA and discretionary disclosures on our part.

Our Pillar 3 disclosures are governed by the Group's disclosure policy framework as approved by the Group Audit Committee.

To give insight into movements during the year, we provide comparative figures, commentary of variances and flow tables for capital requirements. In all tables where the term 'capital requirements' is used, this represents the minimum total capital charge set at 8% of risk-weighted assets ('RWAs') by article 92 of the Capital Requirements Regulation. Table name references and row numbering in tables identify those prescribed in the relevant EBA guidelines where applicable and where there is a value.

Where disclosures have been enhanced, or are new, we do not generally restate or provide comparatives. Wherever specific rows and columns in the tables prescribed by the EBA or Basel are not applicable or immaterial to our activities, we omit them and follow the same approach for comparative disclosures.

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 *Earnings Release 3Q20* or to other locations.

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

Regulatory developments

Covid-19

The Covid-19 outbreak has created an unprecedented challenge to the global economy. Governments, central banks and regulatory authorities have responded to this challenge with a number of regulatory measures related to customer support, operational capacity and amendments to the RWA, capital and liquidity frameworks.

In the EU, measures included a package known as the 'CRR Quick Fix' enacted in June 2020. This represents an acceleration of some of the beneficial elements of the amendments to the Capital Requirements Regulation ('CRR II'), which were originally scheduled for June 2021, together with other amendments to mitigate the potential volatility in capital ratios arising from the outbreak. The amendments came into effect in June 2020, with the exception of the changes to the rules on software assets.

Under existing rules, software assets are deducted in full from common equity tier 1 ('CET1'). Under the new rules, a portion of the asset will be risk-weighted at 100% and the remainder will be subject to a CET1 deduction. The changes are expected to be

implemented before the end of 2020. In response to the package, the PRA is undertaking a quantitative analysis of the benefits, which will be used to inform its supervisory approach to the amendments and may include possible add-backs under Pillar 2.

A phased implementation of the revised small and medium-sized enterprises supporting factor will begin in the final quarter of 2020.

The UK's withdrawal from the EU

The UK left the EU on 31 January 2020. In order to smooth the transition, the UK remains subject to EU law during an implementation period, which will end on 31 December 2020. In preparation for the end of the implementation period, the UK has made a series of statutory instruments that will onshore EU law at that date. In some circumstances, the statutory instruments will contain amendments to the EU's legislation, principally to make the legislation operable in the UK, but also to reflect the EU's status as a 'third country' under UK law after leaving the EU.

Included in that process are the proposed statutory instruments to implement the fifth Capital Requirements Directive ('CRD V') and the second Bank Recovery and Resolution Directive. Both of these directives are scheduled to be implemented on 28 December 2020. However, significant elements will not enter into force until later. Broadly, the statutory instruments will only implement those elements that enter into force on 28 December 2020. For CRD V, this includes the changes to the structure of capital buffers that apply to ring-fenced banks and the regulation of financial holding companies. In October 2020, the PRA issued a further consultation on its implementation of CRD V, which in addition to the changes mentioned above, proposed changes to the Maximum Distributable Amount framework.

In October 2020, Her Majesty's Treasury ('HMT') published a consultation launching the second phase of its Future Regulatory Framework ('FRF') review of how the UK's regulatory framework needs to adapt long term. The FRF proposes a framework where detailed prudential rules are designed and implemented by the PRA, based upon high-level principles set by the UK's parliament and government. Furthermore, there will be improvements to the accountability of the PRA to parliament, HMT and the industry. The UK's parliament and government will also retain responsibility for equivalence decisions.

In September 2020, the Bank of England and the PRA published a consultation on changes to their rules and the EU's technical standards in preparation for the end of the implementation period. This confirmed that the PRA will exercise the temporary transitional powers that it has been granted to delay the implementation of any rule changes in the statutory instruments. It remains the PRA's intention that its exercise of these transitional powers will be wide reaching, with limited exemptions, and for a period of 15 months, i.e. until 31 March 2022.

The Basel Committee

The Basel Committee ('Basel') completed the Basel III Reforms in July 2020 when it published the final revisions to the credit valuation adjustment ('CVA') framework. The package is scheduled to be implemented on 1 January 2023, with a five-year transitional provision for the output floor. This floor ensures that, at the end of the transitional period, banks' total RWAs will be no lower than 72.5% of those generated by the standardised approaches. The final standards will need to be transposed into the relevant local law before coming into effect.

There remains a significant degree of uncertainty about the impact of these changes due to the number of national discretions within Basel's reforms and the need for further supporting technical standards to be developed.

The Capital Requirements Regulation amendments

In June 2019, the EU enacted amendments to the Capital Requirements Regulation. This included the EU's implementation of changes to the own funds regime and to the Financial Stability Board's ('FSB') requirements for total loss-absorbing capacity ('TLAC'), known in the EU as the minimum requirements for own funds and eligible liabilities ('MREL'). CRR II will also implement the first tranche of changes to the EU's legislation to reflect the Basel III Reforms, including the changes to market risk (Fundamental Review of the Trading Book) rules, revisions to the standardised approach for measuring counterparty risk, changes to the equity investments in funds rules and the new leverage ratio rules. The CRR II rules will follow a phased implementation with significant elements entering into force in 2021, in advance of Basel's timeline.

Given that many of the CRR II changes are scheduled for after the end of the implementation period following the UK's departure from the EU, the UK intends to implement its own version of the CRR II to the same timetable as the EU. A Financial Services Bill has been introduced to parliament setting out the framework for implementing the Basel III Reforms, including those changes resulting from the CRR II. In line with the FRF proposals, the PRA will be responsible for drafting detailed rules. The PRA is expected to consult imminently on the first tranche of rules, equivalent to the CRR II.

The implementation of the remaining Basel III Reforms

The remaining elements of the Basel III Reforms will be implemented separately in the UK by a further set of amendments to the UK's version of the CRR. However, the PRA has yet to consult on these. Implementation in the UK is expected to be consistent with Basel's timeline.

In the EU, the European Commission has requested that the EBA update its previous advice on the impact of the package, taking into account the effect of the Covid-19 outbreak. Two scenarios are being considered. One scenario entails implementing the reforms in EU legislation in full alignment with Basel's standards and timeline i.e.1 January 2023. The second scenario entails the implementation of the reforms in line with Basel's timeline but with the CVA exemptions, the SME and infrastructure factors, and the historical loss multipliers set to 1 for operational risk. The subsequent EU implementation will be subject to an extensive negotiation process with the EU Council and the EU Parliament.

Other developments

In September 2020, the PRA published a consultation to introduce risk-weight floors for UK mortgages subject to the internal ratings based ('IRB') approach. The PRA has proposed that each individual mortgage will be subject to a 7% risk-weight floor. In addition, there will an exposure-weighted average portfolio risk-weight of at least 10% for all IRB UK residential mortgage exposures. The PRA is proposing to implement the changes from 1 January 2022. In a further model-related consultation published in October 2020, the PRA set out the criteria for when a firm may use overseas models in the calculation of a UK group's consolidated capital requirements. These changes are due to be implemented from 1 July 2021.

Key metrics

Key metrics (KM1/IFRS9–FL)[1]

Ref*		Footnotes	At 30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Sep 2019
	Available capital ($bn)	2					
1	Common equity tier 1 ('CET1') capital	^	**133.4**	128.4	125.2	124.0	123.8
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied		**132.2**	127.4	124.5	123.1	122.9
3	Tier 1 capital	^	**157.4**	152.5	149.2	148.4	149.7
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied		**156.2**	151.4	148.5	147.5	148.8
5	Total capital	^	**181.8**	177.2	174.0	172.2	175.1
6	Total capital as if IFRS 9 transitional arrangements had not been applied		**180.7**	176.1	173.3	171.3	174.2
	Risk-weighted assets ('RWAs') ($bn)						
7	Total RWAs		**857.0**	854.6	857.1	843.4	865.2
8	Total RWAs as if IFRS 9 transitional arrangements had not been applied		**856.6**	854.1	856.7	842.9	864.7
	Capital ratios (%)	2					
9	CET1	^	**15.6**	15.0	14.6	14.7	14.3
10	CET1 as if IFRS 9 transitional arrangements had not been applied		**15.4**	14.9	14.5	14.6	14.2
11	Tier 1	^	**18.4**	17.8	17.4	17.6	17.3
12	Tier 1 as if IFRS 9 transitional arrangements had not been applied		**18.2**	17.7	17.3	17.5	17.2
13	Total capital	^	**21.2**	20.7	20.3	20.4	20.2
14	Total capital as if IFRS 9 transitional arrangements had not been applied		**21.1**	20.6	20.2	20.3	20.1
	Additional CET1 buffer requirements as a percentage of RWAs (%)						
	Capital conservation buffer requirement		**2.50**	2.50	2.50	2.50	2.50
	Countercyclical buffer requirement		**0.22**	0.20	0.22	0.61	0.69
	Bank G-SIB and/or D-SIB additional requirements		**2.00**	2.00	2.00	2.00	2.00
	Total bank CET1 specific buffer requirements		**4.72**	4.70	4.72	5.11	5.19
	Total capital requirement (%)	3					
	Total capital requirement		**11.1**	11.1	11.0	11.0	11.0
	CET1 available after meeting the bank's minimum capital requirements		**9.3**	8.8	8.4	8.5	8.1
	Leverage ratio	4					
15	Total leverage ratio exposure measure ($bn)	^	**2,857.4**	2,801.4	2,782.7	2,726.5	2,708.2
16	Leverage ratio (%)	^	**5.4**	5.3	5.3	5.3	5.4
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)		**5.4**	5.3	5.2	5.3	5.4
	Liquidity coverage ratio ('LCR')	5					
	Total high-quality liquid assets ($bn)		**654.2**	654.4	617.2	601.4	513.2
	Total net cash outflow ($bn)		**446.3**	442.9	395.0	400.5	378.0
	LCR ratio (%)		**146.6**	147.8	156.3	150.2	135.8

* *The references in this table and other tables within this section identify the lines prescribed in the relevant EBA template where applicable and where there is a value.*

^ *Figures have been prepared on an IFRS 9 transitional basis.*

1 *Where applicable, our reporting throughout this document also reflects government relief schemes intended to mitigate the impact of the Covid-19 outbreak.*

2 *Capital figures and ratios are reported on a CRR II transitional basis for capital instruments.*

3 *Total capital requirement is defined as the sum of Pillar 1 and Pillar 2A capital requirements set by the UK PRA. The minimum requirements represent the total capital requirement to be met by CET1.*

4 *Leverage ratio is calculated using the CRR II end point basis for capital.*

5 *The EU's regulatory transitional arrangements for IFRS 9 in article 473a of the Capital Requirements Regulation do not apply to liquidity coverage measures. LCR is calculated as at the end of each period rather than using average values. For further details, refer to page 83 of the* Interim Report 2020.

We have adopted the regulatory transitional arrangements in CRR II for IFRS 9, including paragraph four of article 473a. These transitional arrangements permit banks to add back to their capital base a proportion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The impact is defined as:

- the increase in loan loss allowances on day one of IFRS 9 adoption; and
- any subsequent increase in expected credit losses ('ECL') in the non-credit-impaired book thereafter.

Any add-back must be tax affected and accompanied by a recalculation of exposure and RWAs.The impact is calculated separately for portfolios using the standardised ('STD') and internal ratings based ('IRB') approaches. For IRB portfolios, there is no add-back to capital unless loan loss allowances exceed regulatory 12-month expected losses.

The EU's CRR 'Quick Fix' relief package enacted in June 2020 increased from 70% to 100% the relief that banks may take for loan loss allowances recognised since 1 January 2020 on the non-credit-impaired book.

In the current period, the add-back to the capital base amounted to $1.5bn under the STD approach with a tax impact of $0.3bn.

Capital

Approach and policy

Our approach to capital management is driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment. We aim to maintain a strong capital base to support the risks inherent in our business and invest in accordance with our strategy, meeting both consolidated and local regulatory capital requirements at all times.

A list of the main features of our capital instruments in accordance with Annex III of Commission Implementing Regulation 1423/2013 is also published on our website with reference to our balance sheet on 30 June 2020. This is in addition to the full terms and conditions of our securities, also available on our website.

For further details of our approach to capital risk management, see page 77 of the Interim Report 2020.

Own funds disclosure

		At	
		30 Sep 2020	30 Jun 2020
Ref		**$m**	$m
6	Common equity tier 1 capital before regulatory adjustments	**164,167**	159,557
28	Total regulatory adjustments to common equity tier 1	**(30,784)**	(31,111)
29	**Common equity tier 1 capital**	**133,383**	128,446
36	Additional tier 1 capital before regulatory adjustments	**24,087**	24,091
43	Total regulatory adjustments to additional tier 1 capital	**(60)**	(60)
44	**Additional tier 1 capital**	**24,027**	24,031
45	**Tier 1 capital**	**157,410**	152,477
51	Tier 2 capital before regulatory adjustments	**25,867**	26,181
57	Total regulatory adjustments to tier 2 capital	**(1,443)**	(1,416)
58	**Tier 2 capital**	**24,424**	24,765
59	**Total capital**	**181,834**	177,242

At 30 September 2020, our CET1 ratio was 15.6%, up from 15.0% at 30 June 2020. CET1 capital increased during the quarter by $5.0bn, mainly as a result of:

- foreign currency translation differences of $2.8bn;
- capital generation of $0.9bn through regulatory profits and an increase of $0.1bn in FVOCI reserves;
- a $0.4bn fall in the threshold deduction for significant investments in financial sector entities; and
- a fall in deductions from CET1 totalling $0.3bn, including $0.2bn relating to goodwill and intangible assets and $0.1bn to deferred tax.

The third quarter prudent valuation adjustment deduction of $1.2bn included a $0.2bn increase arising from additional uncertainty reserves for exiting over-the-counter derivative transactions.

Risk-weighted assets

Overview of RWAs (OV1)

Ref		30 Sep 2020 RWAs $bn	30 Jun 2020 RWAs $bn	30 Sep 2020 Capital requirement[1] $bn
1	**Credit risk (excluding counterparty credit risk)**	**637.3**	632.6	**51.0**
2	– standardised approach	**121.8**	116.8	**9.7**
3	– foundation internal ratings based ('IRB') approach	**104.6**	103.9	**8.4**
4	– advanced IRB approach	**410.9**	411.9	**32.9**
6	**Counterparty credit risk**	**41.6**	43.1	**3.3**
7	– mark-to-market	**20.4**	20.6	**1.6**
10	– internal model method ('IMM')	**17.5**	18.3	**1.4**
11	– risk exposure amount for contributions to the default fund of a central counterparty	**0.5**	0.5	**—**
12	– credit valuation adjustment	**3.2**	3.7	**0.3**
13	**Settlement risk**	**—**	—	**—**
14	**Securitisation exposures in the non-trading book**	**10.1**	10.4	**0.8**
14a	– internal ratings-based approach ('SEC-IRBA')	**1.9**	1.8	**0.1**
14b	– external ratings-based approach ('SEC-ERBA')	**3.7**	3.9	**0.3**
14c	– internal assessment approach ('IAA')	**2.1**	2.3	**0.2**
14d	– standardised approach ('SEC-SA')	**2.4**	2.4	**0.2**
19	**Market risk**	**31.3**	35.2	**2.5**
20	– standardised approach	**8.2**	8.4	**0.7**
21	– internal models approach ('IMA')	**23.1**	26.8	**1.8**
23	**Operational risk**	**91.4**	89.6	**7.3**
25	– standardised approach	**91.4**	89.6	**7.3**
27	**Amounts below the thresholds for deduction (subject to 250% risk-weight)**	**45.3**	43.7	**3.6**
29	**Total**	**857.0**	854.6	**68.6**

1 *'Capital requirement' in this and subsequent tables represents the minimum capital charge set at 8% of RWAs by article 92 of the Capital Requirements Regulation.*

The quarter-on-quarter movements in the table above are described by risk type in the following comments.

Credit risk (including amounts below the thresholds for deduction)

Excluding foreign currency translation differences of $12.2bn, the RWA decrease of $5.9bn was largely driven by a $3.7bn fall in asset size due to reduced lending and reductions under management initiatives, most significantly in Global Banking and Markets ('GBM') and Commercial Banking ('CMB'), partly offset by a rise in short-term lending in Hong Kong.

An increase of $2.2bn was due to changes in asset quality, which included credit rating downgrades caused by the Covid-19 outbreak, mostly in the CMB business in Asia. Credit migration impacts in other regions were largely offset by decreases due to changes in portfolio mix.

Changes to methodology and policy led to an RWA decrease of $4.8bn. Management initiatives reduced RWAs by $3.7bn. These were largely risk parameter refinements in Europe and Asia. The introduction of the new infrastructure supporting factor under the CRR 'Quick Fix' relief package led to a $0.5bn reduction in RWAs.

Counterparty credit risk

Counterparty credit risk (including settlement risk) RWAs decreased by $1.5bn, largely as a result of trade actions in North America and Europe. This was partly offset by increases due to credit rating migration on derivative transactions in Europe and Asia.

Securitisation

Securitisation RWAs decreased by $0.3bn, primarily due to asset size reduction, mostly in Europe.

Market risk

Market risk RWAs decreased by $3.9bn, mainly due to changes in market conditions, reduced sovereign exposures and management initiatives.

Operational risk

Operational risk RWAs increased by $1.6bn due to foreign currency translation differences.

RWAs by geographical region

	Footnotes	Europe $bn	Asia $bn	MENA $bn	North America $bn	Latin America $bn	Total $bn
Credit risk		**208.6**	**309.3**	**49.8**	**99.1**	**25.9**	**692.7**
Counterparty credit risk		**22.5**	**10.0**	**1.4**	**6.2**	**1.5**	**41.6**
Market risk	1	**26.0**	**20.5**	**2.2**	**5.8**	**1.3**	**31.3**
Operational risk		**24.1**	**45.3**	**6.0**	**11.8**	**4.2**	**91.4**
At 30 Sep 2020		**281.2**	**385.1**	**59.4**	**122.9**	**32.9**	**857.0**

1 *RWAs are non-additive across geographical regions due to market risk diversification effects within the Group.*

RWA movement by geographical region by key driver

	Credit risk, counterparty credit risk and operational risk						
	Europe	Asia	MENA	North America	Latin America	Market risk	Total RWAs
	$bn	$bn	$bn	$bn	$bn	$bn	$bn
RWAs at 1 Jul 2020	**252.1**	**353.9**	**56.9**	**124.3**	**32.2**	**35.2**	**854.6**
Asset size	(5.3)	6.9	(0.2)	(5.6)	(1.3)	(5.3)	(10.8)
Asset quality	0.6	3.6	0.8	(2.0)	–	–	3.0
Model updates	0.2	(0.2)	–	0.3	–	–	0.3
Methodology and policy	(2.4)	(2.8)	–	(0.5)	–	1.4	(4.3)
Foreign exchange movements	10.0	3.2	(0.3)	0.6	0.7	–	14.2
Total RWA movement	3.1	10.7	0.3	(7.2)	(0.6)	(3.9)	2.4
RWAs at 30 Sep 2020	**255.2**	**364.6**	**57.2**	**117.1**	**31.6**	**31.3**	**857.0**

RWA flow statements of credit risk exposures under IRB approach[1] (CR8)

Ref		RWAs	Capital requirement
		$bn	$bn
1	**RWAs at 1 Jul 2020**	**515.8**	**41.3**
2	Asset size	(11.0)	(0.9)
3	Asset quality	2.6	0.2
4	Model updates	0.4	–
5	Methodology and policy	(2.9)	(0.2)
7	Foreign exchange movements	10.6	0.8
9	**RWAs at 30 Sep 2020**	**515.5**	**41.2**

1 *Securitisation positions are not included in this table.*

Excluding an increase of $10.6bn due to foreign currency translation differences, RWAs under the IRB approach decreased by $10.9bn. Asset size reductions of $11.0bn were primarily due to lower lending and management initiatives, most significantly in GBM and CMB. Within asset size movements, these reductions were partly offset by an increase in short-term lending in Hong Kong. Changes in methodology and policy led to a $2.9bn fall in RWAs. These were largely risk parameter refinements in Europe and Asia under management initiatives, and a $0.5bn reduction due to the introduction of the new infrastructure supporting factor. An increase of $2.6bn due to changes in asset quality was driven by credit rating downgrades, partly offset by decreases due to changes in portfolio mix.

RWA flow statements of counterparty credit risk exposures under the IMM (CCR7)

Ref		RWAs	Capital requirement
		$bn	$bn
1	**RWAs at 1 Jul 2020**	**21.4**	**1.7**
2	Asset size	(1.3)	(0.1)
3	Asset quality	0.4	–
5	Methodology and policy	(0.5)	
9	**RWAs at 30 Sep 2020**	**20.0**	**1.6**

RWAs under the internal model method decreased by $1.4bn in 3Q20. A $1.3bn decrease in RWAs from asset size movements was driven mainly by trade actions in North America and Europe. A $0.5bn decrease in RWAs was due to changes to methodology and policy, primarily management initiatives including risk parameter refinements. Asset quality changes led to a $0.4bn increase in RWAs, largely due to credit rating migration on derivative transactions in Europe and Asia.

RWA flow statements of market risk exposures under the IMA (MR2–B)

Ref		VaR	Stressed VaR	IRC	Other	Total RWAs	Capital requirement
		$bn	$bn	$bn	$bn	$bn	$bn
1	**RWAs at 1 Jul 2020**	**7.3**	**10.3**	**7.1**	**2.1**	**26.8**	**2.1**
2	Movement in risk levels	(1.3)	(2.0)	(0.7)	(0.5)	(4.5)	(0.4)
4	Methodology and policy	(0.1)	(0.1)	–	1.0	0.8	0.1
8	**RWAs at 30 Sep 2020**	**5.9**	**8.2**	**6.4**	**2.6**	**23.1**	**1.8**

RWAs under the internal models approach decreased by $3.7bn. A $4.5bn fall in risk levels was mainly due to changes in market conditions, reduced sovereign exposures and management initiatives. Methodology and policy changes caused a $0.8bn increase in RWAs, largely in relation to risks not captured by internal models.

Minimum requirement for own funds and eligible liabilities

A requirement for total loss-absorbing capacity ('TLAC'), as defined in the final standards adopted by the Financial Stability Board, came into effect on 1 January 2019. In the EU, TLAC requirements were implemented via CRR II, which came into force in June 2019 and included a framework on minimum requirement for own funds and eligible liabilities ('MREL').

MREL includes own funds and liabilities that can be written down or converted into capital resources in order to absorb losses or recapitalise a bank in the event of its failure.

The framework is complemented by disclosure requirements. As the specific EU format is yet to be agreed, the disclosures below are based on the formats provided in the Basel Committee Standards for Pillar 3 disclosures.

In line with our existing structure and business model, we have three resolution groups – namely the European resolution group, the Asian resolution group and the US resolution group. Smaller entities outside these resolution groups can be separately resolved.

The following tables summarise key metrics for each of the Group's three resolution groups. Fully loaded values and ratios are calculated without applying any regulatory transitional arrangements for ECL that may be available to the resolution group.

Key metrics of the European resolution group[1] (KM2)

		At				
		30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Sep 2019
1	Total loss absorbing capacity ('TLAC') available ($bn)	**96.9**	94.3	98.5	94.6	95.5
1a	Fully loaded ECL accounting model TLAC available ($bn)	**96.8**	94.2	98.4	94.4	95.3
2	Total RWAs at the level of the resolution group ($bn)	**298.5**	295.7	299.6	297.4	316.8
3	TLAC as a percentage of RWA (row1/row2) (%)	**32.5**	31.9	32.9	31.8	30.1
3a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model RWA (%)	**32.4**	31.9	32.8	31.8	30.1
4	Leverage exposure measure at the level of the resolution group ($bn)	**1,219**	1,166	1,163	1,167	1,133
5	TLAC as a percentage of leverage exposure measure (row1/row4) (%)	**7.9**	8.1	8.5	8.1	8.4
5a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model leverage exposure measure (%)	**7.9**	8.1	8.5	8.1	8.4
6a	Does the subordination exemption in the antepenultimate paragraph of section 11 of the FSB TLAC term sheet apply?	**No**	No	No	No	No
6b	Does the subordination exemption in the penultimate paragraph of section 11 of the FSB TLAC term sheet apply?	**No**	No	No	No	No
6c	If the capped subordination exemption applies, the amount of funding issued that ranks *pari passu* with excluded liabilities and that is recognised as external TLAC, divided by funding issued that ranks *pari passu* with excluded liabilities and that would be recognised as external TLAC if no cap was applied (%)	**N/A**	N/A	N/A	N/A	N/A

Key metrics of the Asian resolution group[2] (KM2)

		At				
		30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Sep 2019
1	Total loss absorbing capacity ('TLAC') available ($bn)	**101.6**	99.8	96.0	98.8	97.2
1a	Fully loaded ECL accounting model TLAC available ($bn)	**101.6**	99.8	96.0	98.8	97.2
2	Total RWAs at the level of the resolution group ($bn)	**390.8**	379.7	374.8	366.1	370.6
3	TLAC as a percentage of RWA (row1/row2) (%)	**26.0**	26.3	25.6	27.0	26.2
3a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model RWA (%)	**26.0**	26.3	25.6	27.0	26.2
4	Leverage exposure measure at the level of the resolution group ($bn)	**1,116**	1,092	1,055	1,036	1,025
5	TLAC as a percentage of leverage exposure measure (row1/row4) (%)	**9.1**	9.1	9.1	9.5	9.5
5a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model leverage exposure measure (%)	**9.1**	9.1	9.1	9.5	9.5
6a	Does the subordination exemption in the antepenultimate paragraph of section 11 of the FSB TLAC term sheet apply?	**No**	No	No	No	No
6b	Does the subordination exemption in the penultimate paragraph of section 11 of the FSB TLAC term sheet apply?	**No**	No	No	No	No
6c	If the capped subordination exemption applies, the amount of funding issued that ranks *pari passu* with excluded liabilities and that is recognised as external TLAC, divided by funding issued that ranks *pari passu* with excluded liabilities and that would be recognised as external TLAC if no cap was applied (%)	**N/A**	N/A	N/A	N/A	N/A

Key metrics of the US resolution group[3] (KM2)

		At				
		30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Sep 2019
1	Total loss absorbing capacity ('TLAC') available ($bn)	**30.5**	30.4	30.5	29.8	30.2
1a	Fully loaded ECL accounting model TLAC available ($bn)	**30.5**	30.3	30.4	N/A	N/A
2	Total RWAs at the level of the resolution group ($bn)	**119.8**	127.2	140.4	128.7	139.0
3	TLAC as a percentage of RWA (row1/row2) (%)	**25.5**	23.9	21.7	23.2	21.7
3a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model RWA (%)	**25.5**	23.8	21.7	N/A	N/A
4	Leverage exposure measure at the level of the resolution group ($bn)	**297**	306	367	332	373
5	TLAC as a percentage of leverage exposure measure (row1/row4) (%)	**10.3**	9.9	8.3	9.0	8.1
5a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model leverage exposure measure (%)	**N/A**	N/A	N/A	N/A	N/A
6a	Does the subordination exemption in the antepenultimate paragraph of section 11 of the FSB TLAC term sheet apply?	**No**	No	No	No	No
6b	Does the subordination exemption in the penultimate paragraph of section 11 of the FSB TLAC term sheet apply?	**No**	No	No	No	No
6c	If the capped subordination exemption applies, the amount of funding issued that ranks *pari passu* with excluded liabilities and that is recognised as external TLAC, divided by funding issued that ranks *pari passu* with excluded liabilities and that would be recognised as external TLAC if no cap was applied (%)	**N/A**	N/A	N/A	N/A	N/A

1 *The European resolution group reports in accordance with the applicable provisions of the Capital Requirements Regulation as amended by CRR II. Unless otherwise stated, all figures are calculated using the EU's regulatory transitional arrangements for IFRS 9 in article 473a of the Capital Requirements Regulation.*

2 *Reporting for the Asian resolution group follows the Hong Kong Monetary Authority regulatory rules. For the Asian resolution group, there are no IFRS 9 transitional arrangements.*

3 *Reporting for the US resolution group is prepared in accordance with local regulatory rules. The US accounting standard for current expected credit losses ('CECL') became effective in 2020. On 31 March 2020, in response to the Covid-19 outbreak, the federal banking agencies issued an interim final rule that provides the option to transition regulatory capital impacts of the new CECL accounting standard over a five-year period. HSBC North America Holdings Inc. has adopted this option. Leverage exposure and ratio are calculated under the US supplementary leverage ratio ('SLR') rules. On 15 May 2020, in response to the continuing economic impact of Covid-19, the US agencies also issued an interim final rule that allows US banks to temporarily exclude on-balance sheet US Treasury securities and deposits held at the Federal Reserve from the SLR denominator until 31 March 2021.*

For further details on the Group's MREL and resolution groups, refer to page 13 of the Group's Pillar 3 Disclosures at 30 June 2020 *document.*

Additional risk management disclosure

The outbreak of Covid-19 has had, and continues to have, a material impact on businesses around the world and the economic environments in which they operate. We have a comprehensive risk management framework through which we are managing the impacts of the outbreak upon our business, customers and staff.

Capital and liquidity

The management of capital was a key focus in the nine months to 30 September 2020 to ensure the Group responded to unprecedented customer and capital demands arising from the Covid-19 outbreak.

In response to a written request from the PRA, we cancelled the fourth interim dividend for 2019 of $0.21 per ordinary share. Similar requests were also made to other UK incorporated banking groups. We also announced that until the end of 2020 we will make no quarterly or interim dividend payments or accruals in respect of ordinary shares. We also plan to suspend share buy-backs in respect of ordinary shares in 2020 and 2021.

Governments, central banks and regulatory authorities globally have responded to the Covid-19 outbreak to ensure continued support and provision of financial services to the real economy. The Financial Policy Committee reduced of the UK countercyclical buffer rate to 0% effective from March 2020. This change is reflected in the Group's risk appetite statement, and together with other regulatory relief, has reduced Group CET1 and leverage ratio requirements.

In the EU, the relief measures include an acceleration of some of the beneficial elements of CRR II that were originally scheduled for June 2021. The relevant changes impacting 3Q20 positions included a resetting of the transitional provisions in relation to recognising IFRS 9 provisions and netting the leverage ratio exposure measure of regular-way purchases and sales. Additionally, there were beneficial changes to prudent valuation adjustments, implementation of an infrastructure supporting factor and market risk back-testing exemptions.

In 3Q20, all entities remained within the CET1 risk appetite and the Group continues to maintain the appropriate resources required to adequately support risks to which it is exposed. This has been further informed by additional internal stress tests carried out in response to the Covid-19 outbreak. Capital risk management practices continued to be enhanced across the Group through the capital risk management function, focusing on both adequacy of capital and sufficiency of returns.

The monitoring of liquidity risk was enhanced during the first half of 2020 in response to the Covid-19 outbreak to ensure the Group responded to the situation appropriately. During the third quarter of 2020, deposits continued to grow across the Group. As a result, the Group and all entities had significant surplus liquidity, resulting in heightened liquidity coverage ratios ('LCR') at entity level in the nine months to 30 September 2020.

Prudent valuation adjustment

The third-quarter prudent valuation adjustment deduction included a $0.2bn increase arising from additional uncertainty reserves for exiting over-the-counter derivative transactions.

Credit risk

During the first half of the year, a number of relief programmes were initiated across the Group in response to the Covid-19 outbreak. Throughout the third quarter of this year we continued to provide customer relief programmes as appropriate.

In retail credit risk, we have continued to monitor models closely to detect any trends, shifts in key risk drivers or early performance indicators that could signal that our IRB models are no longer performing as expected. Using the latest available data from August 2020 for our retail models, some early signs of model performance deterioration have been observed, largely due to issues with processing payment holidays and a minor increase in defaults in some markets. Appropriate adjustments to RWAs were made to account for operational limitations. We will continue to monitor these closely to assess whether any other adjustments are required to ensure compliance to minimum pillar 1 capital requirements.

Within wholesale credit risk, the most recent financial data received from customers do not always reflect current business performance during the outbreak, so we apply appropriate levels of judgemental overrides to the model outputs.

For both retail and wholesale credit risk, as better information emerges on the outbreak's impact on the credit quality of loan portfolios and the creditworthiness of groups of borrowers, credit risk evaluations will be modified accordingly. We will continue to monitor the credit risk within our business and take the appropriate mitigating actions to help support our customers and our franchise.

Non-financial risk

As a result of the Covid-19 outbreak, business continuity plans have been implemented and the majority of service level agreements have been maintained. We have not experienced any major impacts to the supply chain from our third-party service providers due to Covid-19 outbreak. The risk of damage or theft to our physical assets or criminal injury to our employees remains unchanged and no significant incidents have impacted our buildings or staff.

Market risk

We managed market risk prudently in 3Q20. Sensitivity exposures remained within appetite as the business pursued its core market-making activity in support of our customers during the outbreak. We have also undertaken hedging activities to protect the business from potential future deterioration in credit conditions. Market risk continued to be managed using a complementary set of exposure measures and limits, including stress and scenario analysis.

Cautionary statement regarding forward-looking statements

This *Pillar 3 3Q20* contains certain forward-looking statements with respect to HSBC's: financial condition; results of operations and business, including the strategic priorities; 2020 financial, investment and capital targets; and ESG targets/commitments described herein.

Statements that are not historical facts, including statements about HSBC's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'targets', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, information, data, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC makes no commitment to revise or update any forward-looking statements to reflect events or

circumstances occurring or existing after the date of any forward-looking statements.

Written and/or oral forward-looking statements may also be made in the periodic reports to the US Securities and Exchange Commission, summary financial statements to shareholders, proxy statements, offering circulars and prospectuses, press releases and other written materials, and in oral statements made by HSBC's Directors, officers or employees to third parties, including financial analysts.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. These include, but are not limited to:

- changes in general economic conditions in the markets in which we operate, such as continuing or deepening recessions and fluctuations in employment and creditworthy customers beyond those factored into consensus forecasts (including, without limitation, as a result of the Covid-19 outbreak); the Covid-19 outbreak, which will have adverse impacts on our income due to lower lending and transaction volumes, lower wealth and insurance manufacturing revenue, and lower or negative interest rates in markets where we operate, as well as, more generally, the potential for material adverse impacts on our financial condition, results of operations, prospects, liquidity, capital position and credit ratings; deviations from the market and economic assumptions that form the basis for our ECL measurements (including, without limitation, as a result of the Covid-19 outbreak or the UK's exit from the EU); potential changes in future dividend policy; changes in foreign exchange rates and interest rates, including the accounting impact resulting from financial reporting in respect of hyper inflationary economies; volatility in equity markets; lack of liquidity in wholesale funding or capital markets, which may affect our ability to meet our obligations under financing facilities or to fund new loans, investments and businesses; geopolitical tensions or diplomatic developments producing social instability or legal uncertainty, such as the unrest in Hong Kong, the existing US-China tensions and the emerging challenges in UK-China relations, which in turn may affect demand for our products and services and could result in (among other things) regulatory, reputational and market risks for HSBC; the efficacy of government, customer, and HSBC's actions in managing and mitigating climate change, which may cause both idiosyncratic and systemic risks resulting in potential financial impacts; illiquidity and downward price pressure in national real estate markets; adverse changes in central banks' policies with respect to the provision of liquidity support to financial markets; heightened market concerns over sovereign creditworthiness in over-indebted countries; adverse changes in the funding status of public or private defined benefit pensions; societal shifts in customer financing and investment needs, including consumer perception as to the continuing availability of credit; exposure to counterparty risk, including third parties using us as a conduit for illegal activities without our knowledge; the expected discontinuation of certain key Ibors and the development of alternative risk-free benchmark rates, which may require us to enhance our capital position and/or position additional capital in specific subsidiaries; and price competition in the market segments we serve;
- changes in government policy and regulation, including the monetary, interest rate and other policies of central banks and other regulatory authorities in the principal markets in which we operate and the consequences thereof (including, without limitation, actions taken as a result of the Covid-19 outbreak); initiatives to change the size, scope of activities and interconnectedness of financial institutions in connection with the implementation of stricter regulation of financial institutions in key markets worldwide; revised capital and liquidity benchmarks, which could serve to deleverage bank balance sheets and lower returns available from the current business model and portfolio mix; imposition of levies or taxes designed to change business mix and risk appetite; the practices, pricing or responsibilities of financial institutions serving their consumer markets; expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; the UK's exit from the EU, which may result in a prolonged period of uncertainty, unstable economic conditions and market volatility, including currency fluctuations; passage of the Hong Kong national security law and restrictions on telecommunications, as well as the US Hong Kong Autonomy Act, which have caused tensions between China, the US and the UK; general changes in government policy that may significantly influence investor decisions; the costs, effects and outcomes of regulatory reviews, actions or litigation, including any additional compliance requirements; and the effects of competition in the markets where we operate including increased competition from non-bank financial services companies; and
- factors specific to HSBC, including our success in adequately identifying the risks we face, such as the incidence of loan losses or delinquency, and managing those risks (through account management, hedging and other techniques); our ability to achieve our financial, investment, capital and ESG targets/commitments, which may result in our failure to achieve any of the expected benefits of our strategic initiatives; model limitations or failure, including, without limitation, the impact that the consequences of the Covid-19 outbreak have had on the performance and usage of financial models, which may require us to hold additional capital, incur losses and/or use compensating controls, such as overlays and overrides, to address model limitations; changes to the judgements, estimates and assumptions we base our financial statements on; changes in our ability to meet the requirements of regulatory stress tests; a reduction in the credit rating assigned to us or any of our subsidiaries, which could increase the cost or decrease the availability of our funding and affect our liquidity position and net interest margin; changes to the reliability and security of our data management, data privacy, information and technology infrastructure, including threats from cyber-attacks, which may impact our ability to service clients and may result in financial loss, business disruption and/or loss of customer services and data; changes in insurance customer behaviour and insurance claim rates; our dependence on loan payments and dividends from subsidiaries to meet our obligations; changes in accounting standards, which may have a material impact on the way we prepare our financial statements; changes in our ability to manage third-party, fraud and reputational risks inherent in our operations; employee misconduct, which may result in regulatory sanctions and/or reputational or financial harm; and changes in skill requirements, ways of working and talent shortages, which may affect our ability to recruit and retain senior management and diverse and skilled personnel. Effective risk management depends on, among other things, our ability through stress testing and other techniques to prepare for events that cannot be captured by the statistical models it uses; and our success in addressing operational, legal and regulatory, and litigation challenges; and other risks and uncertainties we identify in 'Top and emerging risks' on pages 76 to 81 of the *Annual Report and Accounts 2019*.

Abbreviations

$	United States dollar
A	
AIRB[1]	Advanced internal ratings based approach
ALCM	Asset, Liability and Capital Management
AT1 capital	Additional tier 1 capital
AVA	Additional value adjustment
B	
BCBS	Basel Committee on Banking Supervision
BoE	Bank of England
C	
CCR[1]	Counterparty credit risk
CCyB[1]	Countercyclical capital buffer
CECL	Current expected credit losses
CET1[1]	Common equity tier 1
CMB	Commercial Banking, a global business
CRM[1]	Credit risk mitigation/mitigant
CRD IV[1]	Capital Requirements Regulation and Directive
CRR[1]	Customer risk rating
CRR II	Revised Capital Requirements Regulation, as implemented
CVA[1]	Credit valuation adjustment
D	
D-SIB	Domestic systemically important bank
E	
EAD[1]	Exposure at default
EBA	European Banking Authority
EC	European Commission
ECL[1]	Expected credit losses
EEA	European Economic Area
EL[1]	Expected loss
EU	European Union
F	
FCA	Financial Conduct Authority
FIRB[1]	Foundation internal ratings based approach
FPC[1]	Financial Policy Committee (UK)
FRTB	Fundamental Review of the Trading book
FSB	Financial Stability Board
G	
GAC	Group Audit Committee
GBM	Global Banking and Markets, a global business
GMB	Group Management Board
GRC	Group Risk Committee
Group	HSBC Holdings together with its subsidiary undertakings
G-SIB[1]	Global systemically important bank
G-SII	Global systemically important institution
H	
HKMA	Hong Kong Monetary Authority
Hong Kong	The Hong Kong Special Administrative Region of the People's Republic of China
HQLA	High-quality liquid assets
HSBC	HSBC Holdings together with its subsidiary undertakings
I	
IAA	Internal assessment approach
IFRSs	International Financial Reporting Standards
ILAA	Individual liquidity adequacy assessment
IMA[1]	Internal models approach
IMM[1]	Internal model method
IRB[1]	Internal ratings based approach
IRRBB	Interest rate risk in the banking book
IRC	Incremental risk charge
L	
LCR[1]	Liquidity coverage ratio
LGD[1]	Loss given default
M	
MENA	Middle East and North Africa
Moody's	Moody's Investor Service
MPE	Multiple point of entry
MREL	Minimum requirements for own funds and eligible liabilities
N	
NCOA	Non-credit obligation asset
NPL	Non-performing loans
O	
OTC[1]	Over-the-counter
P	
PD[1]	Probability of default
PRA[1]	Prudential Regulation Authority (UK)
PVA	Prudent valuation adjustment
Q	
QCCP	Qualifying Central Counterparty
R	
RBWM	Retail Bank and Wealth Management, a former global business now part of Wealth and Personal Banking
Retail IRB[1]	Retail internal ratings based approach
RMM	Risk Management Meeting of the GMB
RNIV	Risks not in VaR
RWA[1]	Risk-weighted asset
S	
SA/STD[1]	Standardised approach
SA-CCR	Standardised approach for counterparty credit risk
SFT	Securities Financing Transactions
SME	Small- and medium-sized enterprise
SPE[1]	Special Purpose Entity
SRB[1]	Systemic Risk Buffer
T	
TLAC[1]	Total loss absorbing capital
T1 capital[1]	Tier 1 capital
T2 capital[1]	Tier 2 capital
U	
UK	United Kingdom
US	United States
V	
VaR[1]	Value at risk
W	
WPB	Wealth and Personal Banking, a global business

1 *Full definition included in the Glossary published on HSBC website www.hsbc.com*

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