HSBC Holdings plc

Pillar 3 Disclosures at 31 March 2022

HSBC

Contents

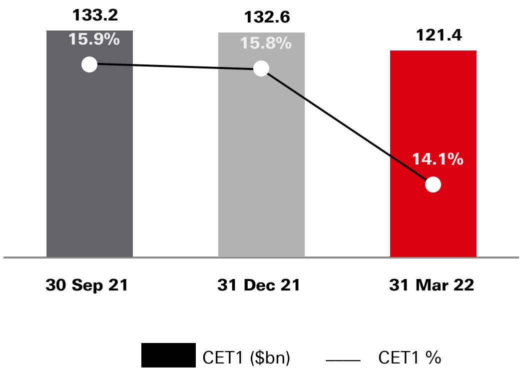
Unless the context requires otherwise, 'HSBC Holdings' means HSBC Holdings plc and 'HSBC', the 'Group', 'we', 'us' and 'our' refer to HSBC Holdings together with its subsidiaries. Within this document the Hong Kong Special Administrative Region of the People's Republic of China is referred to as 'Hong 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 1Q22*, which has been published on our website at www.hsbc.com/investors.

Introduction

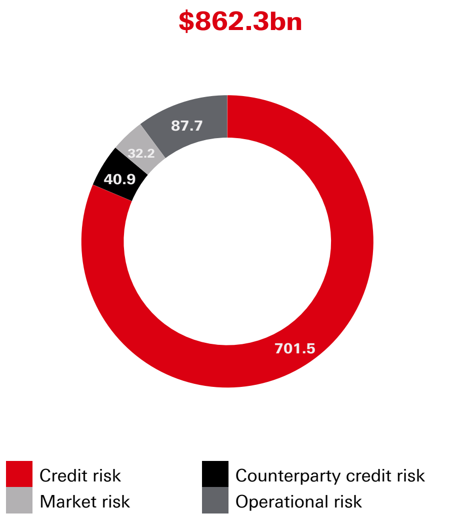
Highlights

Common equity tier 1: $121.4bn and 14.1%[1]

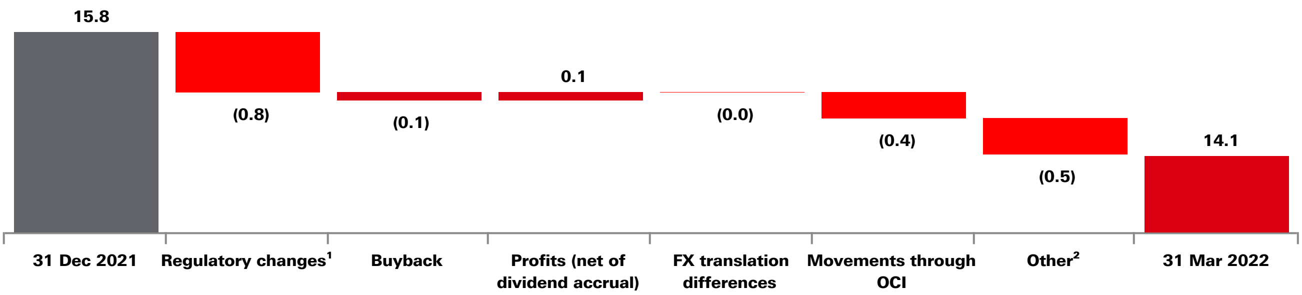


1 Capital figures and ratios are reported on a CRR II transitional basis for capital instruments.

Risk-weighted assets by risk type at 31 March 2022 ($bn)



Common equity tier 1 ratio movement, %



1 Regulatory changes include impacts from software capitalisation benefit reversal, IRB repair and the UK's implementation of the CRR II rules; includes $0.2bn of related threshold deductions not included in other movements.
2 Includes increased threshold deductions of 0.3 percentage points.

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 in the UK. Any references to EU regulations and directives (including technical standards) should, as applicable, be read as references to the UK's version of such regulation and/or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018, including any subsequent amendments.The regulators of the Group's banking entities outside the UK are at varying stages of implementing the Basel framework, so local regulations may have been on the basis of Basel I, II or III.

The Basel III framework is structured around three 'pillars', with the Pillar 1 minimum capital requirements and Pillar 2 supervisory review process 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 31 March 2022* comprises both quantitative and qualitative information required under Pillar 3. These disclosures are made in accordance with part Eight of the Capital Requirements Regulation and Directive, as implemented ('CRR II') and the PRA Rulebook, and use the PRA's disclosure templates and instructions which came into force on 1 January 2022. 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 on 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 PRA 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 PRA 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 locations.

Regulatory reporting processes and controls

The quality of regulatory reporting remains a key priority for management and regulators. Notably, the PRA published a Dear CEO letter addressed to UK regulated banks, which highlighted areas of concern over the processes firms use to deliver regulatory returns.

Recent sanctions issued by the PRA demonstrate its intent in this respect. We are progressing with a comprehensive programme to strengthen our processes, improve consistency, and enhance controls on various aspects of regulatory reporting. We have commissioned a number of independent external reviews, some at the request of our regulators, including one on our credit risk RWA reporting process, which is currently ongoing.

As a result of these initiatives, there may be an impact on some of our regulatory ratios, such as the common equity tier 1 ('CET1') ratio and the liquidity coverage ratio ('LCR').

Key metrics

Key metrics (KM1/IFRS9-FL)

Ref		At				
		31 Mar 2022	31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2021
	Available capital ($bn)[1]					
1	Common equity tier 1 ('CET1') capital^	**121.4**	132.6	133.2	134.6	134.5
	CET1 capital as if IFRS 9 transitional arrangements had not been applied	**121.0**	131.8	132.5	133.8	133.6
2	Tier 1 capital^	**143.9**	156.3	156.9	158.3	160.2
	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**143.5**	155.5	156.2	157.5	159.3
3	Total capital^	**165.6**	177.8	179.0	181.1	183.1
	Total capital as if IFRS 9 transitional arrangements had not been applied	**165.2**	177.0	178.3	180.3	182.2
	Risk-weighted asset ('RWAs') ($bn)					
4	Total RWAs	**862.3**	838.3	839.2	862.3	846.8
	Total RWAs as if IFRS 9 transitional arrangements had not been applied	**862.0**	837.4	838.6	861.5	846.1
	Capital ratios (%)					
5	CET1^	**14.1**	15.8	15.9	15.6	15.9
	CET1 as if IFRS 9 transitional arrangements had not been applied	**14.0**	15.7	15.8	15.5	15.8
6	Tier 1^	**16.7**	18.6	18.7	18.4	18.9
	Tier 1 as if IFRS 9 transitional arrangements had not been applied	**16.6**	18.6	18.6	18.3	18.8
7	Total capital^	**19.2**	21.2	21.3	21.0	21.6
	Total capital as if IFRS 9 transitional arrangements had not been applied	**19.2**	21.1	21.3	20.9	21.5
	Additional own funds requirements based on supervisory review and evaluation process ('SREP') as a percentage of RWAs (%)[2]					
UK-7a	Additional CET1 SREP requirements	**1.5**	N/A	N/A	N/A	N/A
UK-7b	Additional AT1 SREP requirements	**0.5**	N/A	N/A	N/A	N/A
UK-7c	Additional T2 SREP requirements	**0.6**	N/A	N/A	N/A	N/A
UK-7d	Total SREP own funds requirements (TSCR ratio)	**10.6**	10.7	11.0	10.9	11.0
	Combined buffer requirement as a percentage of RWAs (%)					
8	Capital conservation buffer requirement	**2.5**	2.5	2.5	2.5	2.5
9	Institution specific countercyclical capital buffer	**0.2**	0.2	0.2	0.2	0.2
10	Global systemically important institution buffer	**2.0**	2.0	2.0	2.0	2.0
11	Combined buffer requirement	**4.7**	4.7	4.7	4.7	4.7
UK-11a	Overall capital requirements[2]	**15.3**	15.4	15.7	15.6	15.7
12	CET1 available after meeting the total SREP own funds requirements	**8.1**	9.8	9.7	9.5	9.7
	Leverage ratio[^,2,3]					
13	Total exposure measure excluding claims on central banks ($bn)	**2,532.9**	N/A	N/A	N/A	N/A
14	Leverage ratio excluding claims on central banks (%)	**5.7**	N/A	N/A	N/A	N/A
	Average exposure measure excluding claims on central banks ($bn)	**2,555.7**	N/A	N/A	N/A	N/A
	Additional leverage ratio disclosure requirements[2,3]					
14a	Fully loaded expected credit losses ('ECL') accounting model leverage ratio excluding claims on central banks (%)	**5.7**	N/A	N/A	N/A	N/A
14b	Leverage ratio including claims on central banks (%)^	**4.9**	N/A	N/A	N/A	N/A
14c	Average leverage ratio excluding claims on central banks (%)^	**5.7**	N/A	N/A	N/A	N/A
14d	Average leverage ratio including claims on central banks (%)^	**4.9**	N/A	N/A	N/A	N/A
14e	Countercyclical leverage ratio buffer (%)	**0.1**	N/A	N/A	N/A	N/A
	Leverage ratio (under Capital Requirements Regulation)[^,3,4]					
	Total leverage ratio exposure measure ($bn)	**N/A**	2,962.7	2,964.8	2,968.5	2,930.2
	Leverage ratio (%)	**N/A**	5.2	5.2	5.3	5.4
	Liquidity coverage ratio ('LCR')[5]					
15	Total high-quality liquid assets ($bn)	**694.6**	717.0	664.0	659.3	695.1
UK-16a	Cash outflows – total weighted value ($bn)	**676.3**	650.3	661.6	662.4	657.6
UK-16b	Cash inflows – total weighted value ($bn)	**157.7**	132.3	171.4	168.7	170.6
16	Total net cash outflow ($bn)	**518.6**	518.0	490.2	493.7	487.0
17	LCR ratio (%)	**133.9**	138.4	135.5	133.5	142.7
	Net stable funding ratio ('NSFR')[2]					
18	Total available stable funding ($bn)	**1,596.6**	N/A	N/A	N/A	N/A
19	Total required stable funding ($bn)	**1,158.1**	N/A	N/A	N/A	N/A
20	NSFR ratio (%)	**137.9**	N/A	N/A	N/A	N/A

^ *Figures have been prepared on an IFRS 9 transitional basis. In the current period, the add-back to the capital base under the regulatory transitional arrangements for IFRS 9 amounted to $0.5bn under the standardised approach with a tax impact of $0.1bn.*

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

2 *These disclosures have been implemented from 1 January 2022, and are based on the PRA's disclosure templates and instructions which came into force at that time. N/A in prior periods indicates that that the disclosure is new or changed and no comparatives are being provided. For this first period, NSFR reflects the position as at 31 March 2022 and is disclosed based on the PRA guidance that came in effect on 1 January 2022.*

3 *Leverage ratio is calculated using the CRR II end point basis for capital. Details of our leverage ratio requirements are available on page 25 of our the* Earnings Release 1Q22.

4 *The comparative leverage exposures and ratios are separately reported based on the Capital Requirements Regulation rules in force at that time and include claims on central banks.*

5 *LCR is calculated as at the end of each period rather than using average values. For further details, refer to page 196 of the* Annual Report and Accounts 2021.

For further details of our application of IFRS 9 transitional regulatory arrangements, refer to page 195 of the Annual Report and Accounts 2021.

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 published on our website at www.hsbc.com with reference to our balance sheet on 31 December 2021. 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 treasury risk management, see page 189 of the Annual Report and Accounts 2021.

Own funds disclosure

		At	
		31 Mar 2022	31 Dec 2021
Ref		**$m**	$m
6	Common equity tier 1 capital before regulatory adjustments	**158,500**	162,918
28	Total regulatory adjustments to common equity tier 1	**(37,053)**	(30,353)
29	**Common equity tier 1 capital**	**121,447**	132,565
36	Additional tier 1 capital before regulatory adjustments	**22,500**	23,787
43	Total regulatory adjustments to additional tier 1 capital	**(60)**	(60)
44	**Additional tier 1 capital**	**22,440**	23,727
45	**Tier 1 capital**	**143,887**	156,292
51	Tier 2 capital before regulatory adjustments	**23,240**	23,018
57	Total regulatory adjustments to tier 2 capital	**(1,506)**	(1,524)
58	**Tier 2 capital**	**21,734**	21,494
59	**Total capital**	**165,621**	177,786

At 31 March 2022, our CET1 capital ratio decreased to 14.1% from 15.8% at 31 December 2021, reflecting a decrease in CET1 capital of $11.2bn and an increase in RWAs of $24.0bn. The key drivers of this 1.7 percentage point fall in our CET1 ratio were:

- a 0.8 percentage point impact from the UK's implementation of new regulatory requirements, which decreased CET1 by $3.2bn and increased RWAs by $27.1bn. These include new internal ratings-based ('IRB') modelling requirements, the deduction of intangible software assets from CET1, and the new standardised approach to counterparty credit risk exposure;
- a 0.4 percentage point impact from the $3.1bn post-tax fall in the fair value of securities classified as hold to collect and sell due to rising yield curves.This trend continued after the quarter and between 31 March 2022 and 19 April 2022 there has been an additional pre-tax loss of approximately $1bn; and
- a 0.2 percentage point impact from RWA growth from asset size and asset quality movements of $12.2bn excluding the impact of foreign currency translation.

Other movements included the planned up to $1bn share buy-back announced in February 2022, and increased deductions for significant investments in financial sector entities (including the acquisition of AXA Singapore).

The background to the changes in regulatory requirements is as follows:

- The changes to IRB modelling requirements known as 'IRB repair' form part of a Europe-wide programme to address concerns about undue variability of banks' approved internal credit risk models, and ensure comparability of the estimates of risk parameters, while retaining their risk sensitivity.
- Following a period of consultation after the UK's withdrawal from the EU, the PRA has repealed measures introduced by the European Banking Authority ('EBA') allowing banks to recognise and risk-weight software development costs as a fixed asset.
- The new standardised approach to counterparty credit exposure was developed as part of the Basel framework to address shortcomings in previous approaches that were not internally modelled. It forms part of the EU's CRR II package that the PRA adopted with effect from 1 January 2022.

At 31 March 2022, our Pillar 2A requirement (set by the PRA) was $22.5bn, equivalent to 2.6% of RWAs, of which 1.5% must be met by CET1.

Regulatory reporting developments

The PRA is expected to consult on the remaining Basel III reforms in the second half of 2022 for implementation from 1 January 2025. We currently do not foresee a material net impact on initial implementation. The RWA output floor under the Basel III reforms will be subject to a five-year transitional provision. Any impact from the output floor would be towards the end of the transition period.

We highlighted on pages 190 and 191 of the *Annual Report and Accounts 2021* certain risks to capital and liquidity. The impact of new rules that came into force in 1Q22 is disclosed in the *Earnings Release 1Q22*.

Risk-weighted assets

Overview of RWAs (OV1)

		At		
		31 Mar 2022	31 Dec 2021	**31 Mar 2022**
		RWAs	RWAs	**Capital requirement[1]**
		$bn	$bn	**$bn**
1	**Credit risk (excluding counterparty credit risk)**	**647.7**	623.8	**51.8**
2	– standardised approach	**120.0**	113.1	**9.6**
3	– foundation internal ratings-based ('FIRB') approach	**85.5**	91.6	**6.8**
4	– slotting approach[4]	**22.8**	22.9	**1.8**
5	– advanced IRB ('AIRB') approach[4]	**419.4**	396.2	**33.6**
6	**Counterparty credit risk ('CCR')**	**40.8**	35.8	**3.3**
7	– standardised approach[2]	**10.9**	8.6	**0.9**
8	– internal model method ('IMM')	**14.2**	12.6	**1.1**
UK-8a	– risk exposure amount for contributions to the default fund of a central counterparty	**1.0**	0.8	**0.1**
UK-8b	– credit valuation adjustment	**3.3**	2.4	**0.3**
9	– other counterparty credit risk[5]	**11.4**	11.4	**0.9**
15	**Settlement risk**	**0.1**	0.1	**–**
16	**Securitisation exposures in the non-trading book**	**8.5**	8.8	**0.7**
17	– internal ratings-based approach ('SEC-IRBA')[4]	**1.6**	1.5	**0.1**
18	– external ratings-based approach ('SEC-ERBA') (including internal assessment approach ('IAA'))[3]	**3.8**	4.0	**0.3**
19	– standardised approach ('SEC-SA')	**2.8**	2.9	**0.3**
UK-19a	– 1250% deduction[4]	**0.3**	0.4	**–**
20	**Position, foreign exchange and commodities risks (market risk)**	**32.2**	32.9	**2.6**
21	– standardised approach	**15.3**	13.3	**1.2**
22	– internal models approach ('IMA')	**16.9**	19.6	**1.4**
23	**Operational risk**	**87.7**	88.9	**7.0**
UK-23b	– standardised approach	**87.7**	88.9	**7.0**
24	**Amounts below the thresholds for deduction (subject to 250% risk-weight)**	**45.3**	48.0	**3.6**
29	**Total**	**862.3**	838.3	**69.0**

1 *'Capital requirement' in this table represents the minimum capital charge set at 8% of RWAs by article 92 of the Capital Requirements Regulation.*
2 *The standardised approach to CCR was implemented with effect from 1 January 2022 and replaces the previous mark-to-market method. The comparative balance has been reported under the previous approach.*
3 *External ratings-based approach ('SEC-ERBA') includes internal assessment approach ('IAA').*
4 *Rows 4 and UK-19a are new disclosures for this period. As comparative values are available, we have reported them in these rows and restated rows 5 and 17 accordingly.*
5 *Other CCR includes RWAs on securities financing transactions and free deliveries.*

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)

Despite a decrease of $7.4bn due to foreign currency translation differences, credit risk RWAs increased by $21.2bn overall.

A $12.3bn increase in RWAs due to asset size movements mainly reflected CMB and GBM corporate loan growth, largely in Asia, the UK and Canada, and a rise in retail lending in Asia.

An $18.7bn increase in RWAs under methodology and policy movements was driven by regulatory change, which included revised IRB modelling requirements and the UK's implementation of the CRR II rules. These increases were partly offset by reductions due to risk parameter refinements in GBM, mostly in Europe and Asia.

Changes in asset quality led to an RWA decrease of $0.8bn, mostly caused by improved ratings in the UK and favourable changes in North America, which were only partly offset by credit migration in Hong Kong and mainland China, and on exposures in Russia.

Our exit from mass market retail banking in the US through the sale of retail branches led to a $1.5bn reduction in RWAs.

Counterparty credit risk

Counterparty credit risk RWAs increased by $5bn, reflecting a $1.9bn increase due to asset size movements, largely driven by higher volatility in Europe and Asia, and $5.6bn of additional RWAs due to the implementation of the new standardised approach to counterparty credit risk exposure and revised IRB modelling requirements. Partly offsetting this was a $1.6bn fall in RWAs following the introduction of a counterparty credit risk equity model in GBM in Europe, and reductions due to risk parameter refinements and trade actions.

Securitisation

Securitisation RWAs decreased by $0.3bn, mostly due to portfolio reductions.

Market risk

Market risk RWAs fell by $0.7bn, driven by reduced value at risk ('VaR') and stressed VaR, reflecting conditions in European portfolios.

Operational risk

Operational risk RWAs decreased by $1.2bn, due to foreign currency translation differences.

RWAs by geographical region

	Europe $bn	Asia $bn	MENA $bn	North America $bn	Latin America $bn	Total $bn
Credit risk	**201.3**	**325.4**	**50.9**	**94.3**	**29.6**	**701.5**
Counterparty credit risk	**21.5**	**11.8**	**1.8**	**4.0**	**1.8**	**40.9**
Market risk[1]	**26.1**	**25.6**	**2.2**	**4.0**	**1.3**	**32.2**
Operational risk	**22.6**	**42.7**	**5.8**	**11.3**	**5.3**	**87.7**
At 31 Mar 2022	**271.5**	**405.5**	**60.7**	**113.6**	**38.0**	**862.3**

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

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

		Quarter ended			
		31 Mar 2022	31 Dec 2021	30 Sep 2021	30 Jun 2021
Ref		**$bn**	$bn	$bn	$bn
1	**RWAs at opening period**	**510.7**	510.4	524.2	517.2
2	Asset size	**11.2**	3.7	1.5	3.5
3	Asset quality	**(0.9)**	(1.7)	(6.4)	2.4
4	Model updates	**—**	0.1	—	1.8
5	Methodology and policy	**14.8**	(1.1)	(2.8)	(1.9)
6	Acquisitions and disposals	**(1.5)**	(0.4)	—	—
7	Foreign exchange movements	**(6.6)**	(0.3)	(6.1)	1.2
9	**RWAs at end of period**	**527.7**	510.7	510.4	524.2

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

RWAs increased by $17.0bn, including a decrease due to foreign currency translation differences of $6.6bn.

Changes in methodology and policy led to a $14.8bn rise in RWAs, primarily driven by regulatory changes including revised modelling requirements and the UK's implementation of the revised CRR II, as implemented. These increases were partly offset by the reversal of the beneficial changes to the treatment of software assets and reductions due to risk parameters refinements.

Asset size movements led to an RWA increase of $11.2bn, which was primarily due to lending growth in Asia, North America and UK.

This was partly offset by $1.5bn due to the exit from mass market retail banking in the US through the sale of retail branches. A further fall of $0.9bn was due to changes in asset quality, mostly due to favourable portfolio mix changes and credit migration.

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

		Quarter ended			
		31 Mar 2022	31 Dec 2021	30 Sep 2021	30 Jun 2021
Ref		**$bn**	$bn	$bn	$bn
1	**RWAs at opening period**	**14.2**	15.6	16.4	18.3
2	Asset size	**1.6**	(1.3)	(0.7)	(1.8)
3	Asset quality	**0.2**	(0.1)	(0.1)	(0.1)
4	Model updates	**0.3**	—	—	—
5	Methodology and policy	**(0.4)**	—	—	—
9	**RWAs at end of period**	**15.9**	14.2	15.6	16.4

RWAs under the internal model method increased by $1.7bn in 1Q22, predominantly due to higher volatility in Europe and the application of the IMM approach to an equity portfolio through a new model offset by management initiatives.

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

Ref		VaR $bn	Stressed VaR $bn	Incremental risk charge ('IRC') $bn	Other $bn	Total RWAs $bn	Total own fund requirements $bn
1	**RWAs at 1 Jan 2022**	**5.2**	**9.6**	**3.2**	**1.6**	**19.6**	**1.6**
2	Movement in risk levels	**(0.1)**	**(3.0)**	**0.3**	**0.1**	**(2.7)**	**(0.2)**
8	**RWAs at 31 Mar 2022**	**5.1**	**6.6**	**3.5**	**1.7**	**16.9**	**1.4**
1	RWAs at 1 Oct 2021	4.9	11.0	4.3	1.4	21.6	1.7
2	Movement in risk levels	0.3	(1.4)	(1.1)	0.2	(2.0)	(0.1)
8	RWAs at 31 Dec 2021	5.2	9.6	3.2	1.6	19.6	1.6
1	RWAs at 1 Jul 2021	5.1	8.4	3.6	1.6	18.7	1.5
2	Movement in risk levels	(0.2)	2.6	0.7	(0.2)	2.9	0.2
8	RWAs at 30 Sep 2021	4.9	11.0	4.3	1.4	21.6	1.7
1	RWAs at 1 Apr 2021	5.3	6.0	4.6	1.6	17.5	1.4
2	Movement in risk levels	(0.1)	2.6	(1.0)	—	1.5	0.1
4	Methodology and policy	(0.1)	(0.2)	—	—	(0.3)	—
8	RWAs at 30 Jun 2021	5.1	8.4	3.6	1.6	18.7	1.5

RWAs under the internal models approach decreased by $2.7bn, mainly in stressed VaR, driven by a reduction in exposures at risk in Asian and European foreign exchange portfolios.

Minimum requirement for own funds and eligible liabilities

A requirement for total loss-absorbing capacity ('TLAC') in line with the final standards adopted by the Financial Stability Board ('FSB') was implemented via CRR II in June 2019. This includes a 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 with disclosure requirements and these disclosures are based on the formats provided in the Basel Committee Standards for Pillar 3 disclosure requirements.

In line with our existing structure and business model, HSBC has three resolution groups – the European resolution group, the Asian resolution group and the US resolution group. There are some smaller entities that fall outside these resolution groups.

The following tables summarise key metrics for the Group's three resolution groups. Fully loaded values and ratios are calculated without applying any regulatory transitional arrangements for expected credit losses and other credit impairment charges ('ECL') that may be available to the resolution group.

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

		At				
		31 Mar 2022	31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2021
1	Total loss absorbing capacity ('TLAC') available ($bn)*	**99.7**	107.7	100.0	98.2	97.3
1a	Fully loaded ECL accounting model TLAC available ($bn)	**99.6**	107.6	99.9	98.2	97.3
2	Total RWAs at the level of the resolution group ($bn)	**281.9**	270.7	282.7	286.9	290.3
3	TLAC as a percentage of RWA (row1/row2) (%)	**35.4**	39.8	35.4	34.2	33.5
3a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model RWA (%)	**35.3**	39.8	35.3	34.2	33.5
4	Leverage exposure measure at the level of the resolution group ($bn)[2]	**943.5**	1,277.6	1,288.5	1,293.6	1,285.2
5	TLAC as a percentage of leverage exposure measure (row1/row4) (%)[2]	**10.6**	8.4	7.8	7.6	7.6
5a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model leverage exposure measure (%)[2]	**10.5**	8.4	7.8	7.6	7.6
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[3] (KM2)

		At				
		31 Mar 2022	31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2021
1	Total loss absorbing capacity ('TLAC') available ($bn)*	**96.6**	101.9	103.0	102.1	96.9
1a	Fully loaded ECL accounting model TLAC available ($bn)	**96.6**	101.9	103.0	102.1	96.9
2	Total RWAs at the level of the resolution group ($bn)	**409.5**	404.8	394.0	401.5	387.3
3	TLAC as a percentage of RWA (row1/row2) (%)	**23.6**	25.2	26.2	25.4	25.0
3a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model RWA (%)	**23.6**	25.2	26.2	25.4	25.0
4	Leverage exposure measure at the level of the resolution group ($bn)	**1,207.5**	1,177.8	1,174.6	1,166.7	1,143.3
5	TLAC as a percentage of leverage exposure measure (row1/row4) (%)	**8.0**	8.7	8.8	8.8	8.5
5a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model leverage exposure measure (%)	**8.0**	8.7	8.8	8.8	8.5
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

* *In April 2022, $1.25bn of loss-absorbing capacity instruments were issued by the Asian Resolution Group to HSBC Holdings plc.*

Key metrics of the US resolution group[4] (KM2)

		At				
		31 Mar 2022	31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2021
1	Total loss absorbing capacity ('TLAC') available ($bn)	**26.6**	26.2	27.9	28.8	29.5
1a	Fully loaded ECL accounting model TLAC available ($bn)	**26.6**	26.2	27.9	28.8	29.5
2	Total RWAs at the level of the resolution group ($bn)	**109.5**	107.1	109.0	109.7	112.4
3	TLAC as a percentage of RWA (row1/row2) (%)	**24.3**	24.5	25.6	26.2	26.2
3a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model RWA (%)[4]	**24.3**	24.5	25.6	26.2	26.2
4	Leverage exposure measure at the level of the resolution group ($bn)[5]	**232.1**	314.6	318.6	314.6	257.7
5	TLAC as a percentage of leverage exposure measure (row1/row4) (%)[5]	**11.5**	8.3	8.7	9.1	11.4
5a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model leverage exposure measure (%)[5]	**11.5**	8.3	8.7	9.1	11.4
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

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 *The leverage exposure is calculated in line with the UK leverage rules that were implemented on 1 January 2022, and excludes central bank claims. Comparatives for 2021 are reported based on the disclosure rules in force at that time, and include claims on central banks.*
3 *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.*
4 *The US accounting standard for current expected credit losses corresponding to IFRS 9 has been effective since 31 March 2020 with transitional adjustments.*
5 *For the US resolution group, Leverage exposure and ratio for current period are based on 'total assets for the leverage ratio' as reported in the regulatory capital calculations. This is a change based on URG's new Category IV designation under US tailoring rules. Leverage exposures and ratios for the prior periods are calculated under the US supplementary leverage ratio rules with Covid-19 relief (reducing on-balance sheet assets by US treasury securities and deposits at the US Federal Reserve Board.*

For further details on the Group's MREL and resolution groups, refer to page 20 of the Group's Pillar 3 Disclosures at 31 December 2021 *document.*

Liquidity

Management of liquidity and funding risk

Liquidity coverage ratio

The LCR aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30 calendar day liquidity stress scenario. From 1 January 2022, we started managing LCR based on PRA's LCR rules following UK's exit from EU. Before this we were managing LCR based on European Commission Delegated Regulation (EU) 2015/61.

Net stable funding ratio

We use the net stable funding ratio ('NSFR'), alongside other appropriate metrics, as a basis for ensuring operating entities raise sufficient stable funding to support their business activities. These metrics require institutions to maintain a minimum amount of stable funding based on assumptions of asset liquidity. From 1 January 2022, we started managing funding risk based on the PRA's NSFR rules.

Currency mismatch in the LCR

The Group's internal liquidity and funding risk management framework requires all operating entities to monitor the LCR for material currencies. This continuous monitoring helps with overall management of currency exposures, in line with our internal framework.

Level and components of HSBC Group consolidated liquidity coverage ratio (LIQ1)[1]

		Quarter ended							
UK-1a		**31 Mar 2022**		31 Dec 2021		30 Sep 2021		30 Jun 2021	
		Total unweighted value	**Total weighted value**	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value
		$m	**$m**	$m	$m	$m	$m	$m	$m
UK-1b	Number of data points used in the calculation of averages		**12**		12		12		12
High-quality liquid assets									
1	Total high-quality liquid assets ('HQLA')		**688,313**		689,493		684,264		680,715
Cash outflows									
2	Retail deposits and small business funding	**896,212**	**90,617**	891,723	89,932	879,170	88,326	865,322	86,793
3	– *of which:* *stable deposits*	***392,991***	***19,650***	*394,486*	*19,724*	*390,657*	*19,533*	*384,413*	*19,221*
4	*less stable deposits*	***503,221***	***70,967***	*497,237*	*70,208*	*488,513*	*68,793*	*480,909*	*67,572*
5	Unsecured wholesale funding	**856,070**	**387,419**	844,605	381,828	830,167	376,778	813,842	372,776
6	– operational deposits (all counterparties) and deposits in networks of cooperative banks	**273,243**	**66,947**	266,895	65,387	260,059	63,724	250,526	61,382
7	– non-operational deposits (all counterparties)	**570,880**	**308,525**	565,941	304,672	558,367	301,313	550,617	298,695
8	– unsecured debt	**11,947**	**11,947**	11,769	11,769	11,741	11,741	12,699	12,699
9	Secured wholesale funding		**11,688**		12,979		13,042		12,330
10	Additional requirements	**345,220**	**112,305**	351,069	114,315	350,552	112,305	348,806	111,731
11	– outflows related to derivative exposures and other collateral requirements	**54,789**	**51,665**	55,702	52,691	55,750	53,196	57,226	55,479
12	– outflows related to loss of funding on debt products	**—**	**—**	—	—	—	—	—	—
13	– credit and liquidity facilities	**290,431**	**60,640**	295,367	61,624	294,802	59,109	291,580	56,252
14	Other contractual funding obligations	**89,059**	**43,948**	89,510	47,521	89,262	49,955	86,976	48,749
15	Other contingent funding obligations	**628,046**	**17,135**	619,653	15,984	610,749	15,401	603,012	14,843
16	**Total cash outflows**		**663,112**		662,559		655,807		647,222
Cash inflows									
17	Secured lending transactions (including reverse repos)	**284,756**	**38,862**	282,144	38,395	281,561	37,697	284,022	35,384
18	Inflows from fully performing exposures	**114,502**	**84,263**	117,797	85,668	119,251	86,438	117,949	84,983
19	Other cash inflows	**93,422**	**38,487**	98,419	42,953	103,071	45,218	113,411	50,964
UK-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)		**—**		—		—		—
UK-19b	(Excess inflows from a related specialised credit institution)		**—**		—		—		—
20	**Total cash inflows**	**492,680**	**161,612**	498,360	167,016	503,883	169,353	515,382	171,331
UK-20a	Fully exempt inflows	**—**	**—**	—	—	—	—	—	—
UK-20b	Inflows subject to 90% cap	**—**	**—**	—	—	—	—	—	—
UK-20c	Inflows subject to 75% cap	**492,680**	**161,612**	498,360	167,016	503,883	169,353	515,382	171,331
Liquidity coverage ratio (adjusted value)									
UK-21	Liquidity buffer		**688,313**		689,493		684,264		680,715
22	Total net cash outflows		**501,500**		495,543		486,454		475,891
23	Liquidity coverage ratio (%)		**137.3**		139.1		140.7		143.0

1 The LCR for 31 March 2022 is reported as specified in the PRA Rulebook effective since 1 January 2022. The comparative LCR figures reported above were prepared as specified by the Commission Delegated Regulation (EU) 2015/61. The differences in the LCR basis of preparation reflect the UK's withdrawal from the EU and do not materially impact the above metrics.

Cautionary statement regarding forward-looking statements

This *Pillar 3 Disclosures at 31 March 2022* contains certain forward-looking statements with respect to HSBC's financial condition; results of operations and business, including the strategic priorities; and financial, investment and capital targets described herein.

Statements that are not historical facts, including statements about HSBC's beliefs and expectations, are forward-looking statements. Words such as 'may', 'will', 'should', 'expects', 'targets', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', or the negative thereof, other variations thereon or 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 new recessions, inflationary pressures and fluctuations in employment and creditworthy customers beyond those factored into consensus forecasts (including, without limitation, as a result of the Covid-19 pandemic and the Russia-Ukraine war); the Covid-19 pandemic, which may continue to have adverse impacts on our income due to lower lending and transaction volumes, lower wealth and insurance manufacturing revenue, and volatile 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 pandemic and the Russia-Ukraine war); potential changes in HSBC's dividend policy; changes in foreign exchange rates and interest rates, including the accounting impact resulting from financial reporting in respect of hyperinflationary 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 Russia-Ukraine war and the related imposition of sanctions, diplomatic tensions, including between China and the US, the UK, the EU, India and other countries, and developments in Hong Kong and Taiwan, alongside other potential areas of tension, which may affect the Group by creating regulatory, reputational and market risks; the efficacy of government, customer, and HSBC's actions in managing and mitigating ESG risks, in particular climate risk, nature-related risks and human rights risks, each of which can impact HSBC both directly and indirectly through our customers and which may result in potential financial and non-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 discontinuation of certain key Ibors and the development of near risk-free benchmark rates, as well as the transition of legacy Ibor contracts to near risk-free benchmark rates, which exposes HSBC to material execution risks, and increases some financial and non-financial risks; 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 pandemic); 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; changes to tax laws and tax rates applicable to HSBC, including the 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 relationship with the EU following the UK's withdrawal from the EU, which may continue to be characterised by uncertainty, particularly with respect to the regulation of financial services, despite the signing of the Trade and Cooperation Agreement between the UK and the EU; 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 and ambitions (including with respect to the commitments set forth in our thermal coal phase-out policy and our targets to reduce our on-balance sheet financed emissions in the oil and gas and power and utilities sectors), which may result in our failure to achieve any of the expected benefits of our strategic priorities; model limitations or failure, including, without limitation, the impact that the consequences of the Covid-19 pandemic 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 judgemental post-model adjustments, 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 ratings 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, including the implementation of IFRS 17 'Insurance Contracts', which may have a material impact on the way we prepare our financial statements and (with respect to IFRS 17) may negatively affect the profitability of HSBC's insurance business; 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; 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; and changes in our ability to develop sustainable finance and climate-related products consistent with the evolving expectations of our regulators, and our capacity to measure the climate impact from our financing activity (including as a result of data limitations and changes in methodologies), which may affect our ability to achieve our climate ambition, our targets to reduce financed emissions in our oil and gas and power and utilities portfolio and the commitments set forth in our thermal coal phase-out policy, and increase the risk of greenwashing. 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; our success in addressing operational, legal and regulatory, and litigation challenges; and other risks and uncertainties we identify in 'Risk' on pages 15 to 16 of the *Earnings Release 1Q22*.

Abbreviations

$	United States dollar
A	
AIRB[1]	Advanced internal ratings-based approach
AT1 capital	Additional tier 1 capital
B	
Basel	Basel Committee on Banking Supervision
C	
CCR[1]	Counterparty credit risk
CET1[1]	Common equity tier 1
CMB	Commercial Banking, a global business
CRR II	Revised Capital Requirements Regulation, as implemented
E	
EBA	European Banking Authority
ECL[1]	Expected credit losses. In the income statement, ECL is recorded as a change in expected credit losses and other credit impairment charges. In the balance sheet, ECL is recorded as an allowance for financial instruments to which only the impairment requirements in IFRS 9 are applied
EEA	European Economic Area
EU	European Union
F	
FIRB[1]	Foundation internal-ratings based approach
FSB	Financial Stability Board
G	
GBM	Global Banking and Markets, a global business
Group	HSBC Holdings together with its subsidiary undertakings
H	
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
IMA[1]	Internal models approach
IMM[1]	Internal model method
IRB[1]	Internal ratings-based approach
IRC	Incremental risk charge
L	
LCR[1]	Liquidity coverage ratio
M	
MENA	Middle East and North Africa
MREL	Minimum requirements for own funds and eligible liabilities
N	
NSFR[1]	Net stable funding ratio
P	
PRA[1]	Prudential Regulation Authority (UK)
R	
RWA[1]	Risk-weighted asset
S	
SEC-ERBA	Securitisation internal rating-based approach
SEC-IRBA	Securitisation external rating-based approach
SEC-SA	Securitisation standardised approach
SREP	Supervisory review and evaluation process
T	
TLAC[1]	Total loss absorbing capacity
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

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

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