2019

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Interim Pillar 3 Disclosures at 30 June 2019

Contents

Introduction

Purpose

This document contains Interim Pillar 3 Disclosures of The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch ('the Bank') at 30 June 2019. It meets the regulatory disclosure requirements under the Bank of Thailand ('BoT') Notification dated 2 May 2013, Re: The Public Disclosure of Capital Maintenance for Commercial Banks. It also serves to comply with the disclosures on Liquidity Coverage Ratio as required by the BoT's Notification dated 25 January 2018, Re: Liquidity Coverage Ratio Disclosure Standards.

References to 'HSBC', 'the Group' or 'the HSBC Group' within this document mean HSBC Holdings plc together with its subsidiaries.

These disclosures are governed by the Bank's disclosure policy, which has been approved by the Asset and Liability Management Committees ('ALCOs'). While the disclosure statement is not required to be externally audited, the document has been subject to independent review in accordance with the Bank's policies on disclosure and its financial reporting and governance processes.

Key regulatory information

Regulatory capital at 30 June 2019

THB 20,100m

31 December 2018: THB 20,100m

Capital ratio at 30 June 2019

18.1%

31 December 2018: 19.5%

Regulatory framework

The Bank calculates capital for prudential regulatory reporting purposes in accordance with the regulations of the BoT regarding a capital adequacy framework, which are based on the Basel III framework: 'A global regulatory framework for more resilient banks and banking systems' issued by the Basel Committee on Banking Supervision ('Basel Committee').

The Basel Committee's framework is structured around three 'pillars': Pillar 1 minimum capital requirements and the 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 Committee's framework and the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, and hence their capital adequacy.

Interim Pillar 3 Disclosures 2019

The Interim Pillar 3 Disclosures 2019 present summary updates on regulatory capital, capital adequacy and market risk together with liquidity and funding risk. The disclosures supplement those already made in the Pillar 3 Disclosures 2018 for those risks covered by the disclosure requirements of the BoT.

The Pillar 3, market discipline, complements the minimum capital requirements and the supervisory review process.

Media and location

The *Interim Pillar 3 Disclosures 2019* and the *Pillar 3 Disclosures 2018* on a standalone basis are available on our website: www.about.hsbc.co.th/hsbc-in-thailand, whereas the Pillar 3 Disclosures 2018 of HSBC Holdings plc and its subsidiaries on a consolidated level and other information on HSBC are available on HSBC Group's website: www.hsbc.com.

Scope of permissions

Credit risk

For credit risk, with the BoT's approval, we have adopted the standardised approach.

Market risk

We have obtained approval from the BoT to apply a combined approach for market risk assessment to determine capital requirements. The standardised approach is used for Specific Interest Rate Risk and the Value at Risk ('VaR') model is used for general market, foreign exchange and interest rate risk.

Operational risk

We have adopted the standardised approach in determining our operational risk capital requirements.

Capital

Approach and policy

Our approach to capital management is designed to ensure we meet current regulatory requirements and that we respect the payment priority of our capital providers. We aim to maintain a strong capital base, to support the risks inherent in our business and to meet local regulatory capital requirements at all times.

We manage our own capital to support our planned business growth and meet our local regulatory requirements within the context of the Group capital plan. Capital generated by us in excess of planned requirements is returned to our Head Office, normally by way of profit remittance, in accordance with the Bank's capital plan.

Capital conservation buffer

To align with the Basel III framework, the BoT contemplates a capital conservation buffer ('CCB'). The CCB was designed to ensure banks build up capital outside periods of stress that can be drawn down when losses are incurred and is set at 2.5%. The BoT has phased in this buffer from 1 January 2016 to 1 January 2019 which result in minimum capital ratio at 1 January 2019 of 11%.

Composition of regulatory capital

The BoT has issued the notification to revise the components of regulatory capital. Items that do not qualify as capital are included in the deductions to be applied to regulatory capital i.e. goodwill, intangible assets, gains on sale related to securitisation transactions and significant investments in common shares and warrants, in line with the Basel III framework.

At 30 June 2019, we have an allocated and registered capital fund with the BoT of Baht 20,100 million *(31 December 2018: Baht 20,100 million)*. The detail can be summarised as follows:

Table 1 : Capital Structure

	30 June 2019 THBm	31 December 2018 THBm
Assets maintained under Section 32	**20,707**	**20,624**
Sum of net capital for maintenance of assets under Section 32 and net balance of inter-office accounts		
Net fund brought in to maintain assets under Section 32	20,100	20,100
Net balance of inter-office accounts where the branch is the debtor to the head office and other branches of the same juristic person, the parent company and subsidiaries of the head office	9,011	8,173
Total	**29,111**	**28,273**
Capital fund	**20,100**	**20,100**
Less: Regulatory adjustment	-	-
Regulatory capital	**20,100**	**20,100**
Regulatory Capital after deducting capital add-on from Single Lending Limit	**20,100**	**19,898**

Table 2 : Capital Adequacy

Minimum capital requirement for credit risk classified by type of assets under the Standardised Approach

	30 June 2019 THBm	31 December 2018 THBm
Performing claims		
Claims on sovereigns and central banks, and multilateral development banks ('MDBs')	65	31
Claims on financial institutions, non-central government public sector entities ('PSEs') treated as claims on financial institutions, and securities firms	1,293	1,118
Claims on corporates, non-central government public sector entities ('PSEs') treated as claims on corporates	6,913	6,401
Claims on retail portfolios	12	13
Claims on housing loans	24	26
Other assets	18	17
Non-performing claims	8	10
Total minimum capital requirement for credit risk	**8,333**	**7,616**

Minimum capital requirement for market risk for positions in the trading book

	30 June 2019 THBm	31 December 2018 THBm
Standardised approach - specific interest rate risk	8	-
Internal model approach	179	188
Total minimum capital requirement for market risk	**187**	**188**

Minimum capital requirement for operational risk

	30 June 2019 THBm	31 December 2018 THBm
Standardised approach	901	926
Total minimum capital requirement for operational risk	**901**	**926**

Capital ratio

	30 June 2019 %	31 December 2018 %
Total capital to risk-weighted assets	**18.1**	**18.2**
Total capital to risk-weighted assets after deducting capital add-on from Single Lending Limit	**18.1**	**17.8**
Minimum capital ratio including CCB as specified by the BoT	**11.0**	**10.375**

Market risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates, commodity prices, interest rates, credit spreads and equity prices will reduce our income or the value of our portfolios.

Exposure to market risk is separated into two portfolios:

- Trading portfolios comprise positions arising from market-making.
- Non-trading portfolios comprise positions that primarily arise from the interest rate management of our commercial banking assets and liabilities, financial investments designated as available-for-sale and held-to-maturity.

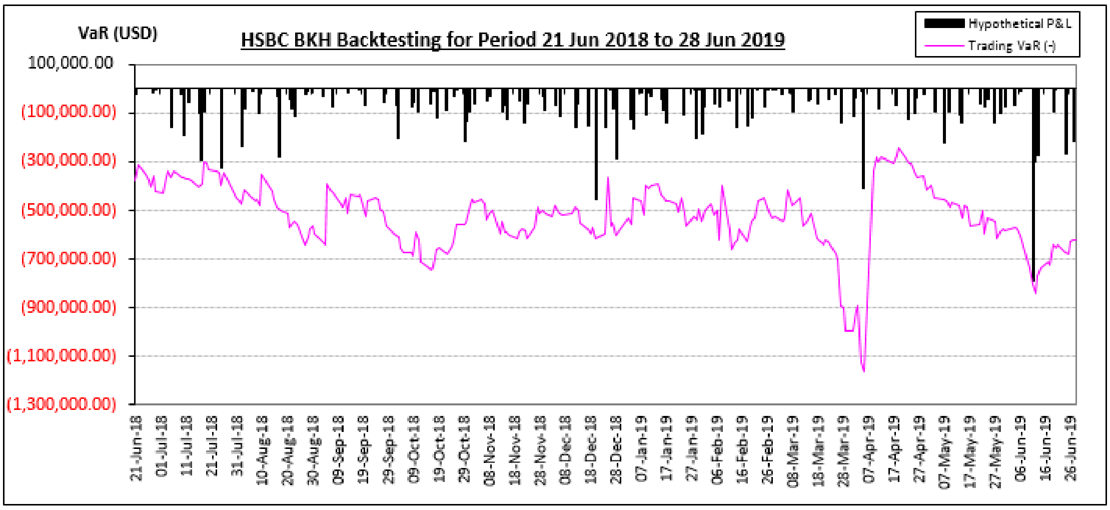
The objective of our market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent within our established risk appetite.

Table 3 : Market risk information by Internal Model Approach at 30 June 2019 and 31 December 2018

	30 June 2019 THBm	**31 December 2018 THBm**
Interest Rate Risk		
Maximum VaR during the period	113	75
Average VaR during the period	55	58
Minimum VaR during the period	22	37
VaR at the end of the period	61	61
Foreign Exchange Rate Risk		
Maximum VaR during the period	25	19
Average VaR during the period	10	4
Minimum VaR during the period	-	-
VaR at the end of the period	7	15
Total Market Risk		
Maximum VaR during the period	113	76
Average VaR during the period	56	59
Minimum VaR during the period	24	37
VaR at the end of the period	60	62

Remark: The period for Maximum VaR, Minimum VaR and Average VaR is 60 days interval. All figures are based on 10 days VaR as used for market risk capital charge calculation.

Table 4 : Backtesting result (considering loss side of Hypothetical P&L vs. Value at Risk)



Remark: There was no backtesting exception reported for the period of 21 June 2018 to 28 June 2019.

Liquidity and funding risk

Overview

Liquidity risk is the risk that the bank does not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. Funding risk is the risk that funding considered to be sustainable, and therefore used to fund assets, is not sustainable over time. The liquidity risk arises from mismatches in the timing of cashflows. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

Liquidity and funding risk management

HSBC has an internal liquidity and funding risk management framework ('LFRF') which aims to allow it to withstand very severe liquidity stresses. It is designed to be adaptable to changing business models, markets and regulations.

The management of liquidity and funding is primarily carried out locally in accordance with the Group's LFRF, and with practices and limits set by the local Asset and Liability Management Committees ('ALCO') and regional Head Office. These limits vary to take account of the depth and liquidity of the local market in which the Bank operates.

The elements of the LFRF are underpinned by a robust governance framework, the two major elements of which are:

- the establishment of ALCOs; and
- the annual internal liquidity adequacy assessment process ('ILAAP') which is used to validate risk tolerance and set risk appetite.

The HSBC LFRF measures and monitors the liquidity and funding risk by using the liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR') as a foundation, with additional metrics, limits and overlays. These includes:

- stand-alone management of liquidity and funding by operating entity;
- minimum LCR requirement by each individual entity;
- minimum NSFR requirement by each individual entity;
- minimum LCR requirement by material currency;
- depositor concentration limit;
- three-month and twelve-month cumulative rolling term contractual maturity limits covering deposits from banks and non-bank financial institutions and securities issued;
- annual individual liquidity adequacy assessment process by entity;
- management and monitoring of intraday liquidity;
- liquidity funds transfer pricing; and
- forward-looking funding assessments.

Whilst liquidity and funding management is an ALCO responsibility, the day-to-day management and monitoring rests with Asset, Liability and Capital Management ('ALCM') and Balance Sheet Management ('BSM') teams.

ALCM manages the balance sheet with a view to achieve efficient allocation and utilization of all resources. ALCM are responsible for the application of the LFRF at a local operating entity level and assists ALCO to review liquidity and funding risks to ensure their prudent management. Liquidity and funding risks are monitored daily and reported to ALCO regularly.

The BSM team within Global Markets is responsible for managing cash, short-term liquidity and funding for the entity. This includes deployment of the commercial surplus as well as accessing wholesale senior funding markets if needed.

Measurement and monitoring

BoT issued a Notification dated 27 May 2015 Re: Guidelines on Liquidity Coverage Ratio ('LCR'), where commercial banks are required to maintain high-quality liquid assets relative to net cash outflows within the 30-day time horizon under liquidity stress scenarios of at least 60% starting from 1 January 2016 and the ratio will be increased by 10% each year until it reaches 100% on 1 January 2020.

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 severe liquidity stress scenario. Commercial banks are required to maintain the LCR in accordance with the guidelines as specified by the BoT.

The Bank manages its LCR position daily within a target range which includes a buffer in excess of the regulatory requirement and reflects management risk appetite in which business activity is undertaken. The Bank actively considers the impact of business decisions on the LCR.

In addition, the Bank maintains a diversified funding base with projections of balance sheet and NSFR discussed in monthly ALCO meetings to ensure the Bank remains well-funded to support the business strategy. The Bank regularly examines its liquidity gaps and introduced the internal metrics on funding concentration to monitor funding risks.

Also, the Bank has a contingency funding plan in place that is tested for its operational robustness and approved by local ALCO annually.

Liquidity coverage ratio disclosure

Table 5 and table 6 set out the disclosure items under the LCR disclosure standard template as specified by the BoT.

The average value of the LCR and related components is calculated by the simple average method, which is the average of three data points (month-end data) over a particular quarter.

Explanations of the LCR disclosure template can be found in the Glossary section.

Further details of the Group's liquidity and funding risk management and disclosures can be viewed in the Annual Report and Accounts 2018 and the Interim Report 2019 or the Pillar 3 Disclosure at 30 June 2019, which is available on HSBC Group's website: www.hsbc.com, under Investor Relations.

Table 5 : Liquidity coverage ratio ('LCR')

	Average Balance	
	2019 Quarter 2 THBm	**2018 Quarter 2 THBm**
(1) Total high-quality liquid assets ('HQLA')	80,125	86,222
(2) Total net cash outflows within the 30-day time horizon	40,783	39,746
(3) Percentage of Liquidity Coverage Ratio (%LCR)	**197%**	**225%**
Minimum percentage of LCR as specified by the BoT	**90%**	**80%**

Table 6 : Comparative data of LCR

	2019 Average LCR %	**2018 Average LCR %**
Quarter 1	245	207
Quarter 2	197	225

The Bank maintains a healthy liquidity position with the average LCR for the 2nd quarter of 2019 of 197%, which is 107% higher than the minimum LCR requirement as specified by the BoT. This LCR is the average of LCRs as at the end of April – 209%, May – 181% and June – 200%. The LCR consists of 2 main components;

1. High-quality liquid assets ('HQLA') include unencumbered high-quality assets with low risk and low volatility that can be easily liquidated through sale or repurchase transactions without any significant changes to their values, even in times of liquidity stress. The value of each type of HQLA is after the application of both haircuts and any applicable caps as specified by the BoT.

   The average HQLA of the Bank for the 2nd quarter of 2019 is Baht 80,125 million, which is the average of HQLA as at the end of April – June. 97% of the average HQLA included in the LCR are Level 1 assets as specified by the BoT, which consist mainly of cash and Baht denominated government and central bank debt securities. The Bank maintains a well-diversification of HQLA to support the regulatory and internal requirements.

2. The amount of net cash outflows is equal to expected cash outflows within the 30-day time horizon minus expected cash inflows within the 30-day time horizon under liquidity stress scenarios; but the expected cash inflows must not exceed 75% of the expected cash outflows.

   The average net cash outflows of the Bank for the 2nd quarter of 2019 is Baht 40,783 million, which is the average of net cash outflows within the 30-day time horizon as at the end of April – June.

   The expected cash outflows on which the Bank focuses under the severe liquidity stress scenarios are the run-off of unsecured wholesales deposits and borrowings, repayments of secured borrowings under repurchase agreements (repos), derivative cash outflows to which the specified BoT run-off rates applied. The cash outflows arising from contingent funding, obligations and collateral requirements such repo funding and derivatives are also captured with the run-off rate assigned by the BoT.

   The expected cash inflows are majority from performing customer's loan repayments, maturing deposits placement and derivative cash inflows, to which the specified BoT inflow rates applied.

Term	Definition
Explanation of the LCR disclosure template	
The high-quality liquid assets ('HQLA')	Total high-quality liquid assets ('HQLA') is defined as the sum of liquid assets with the features as specified by the BoT as follows: I. Characteristics of liquid assets II. Guidelines on the calculation of liquid assets III. Operational requirements IV. Diversification of liquid assets The total HQLA is the value of total HQLA after the application of both haircuts and any applicable caps as specified by the BoT.
Total net cash outflows within the 30-day time horizon	The term "total net cash outflows within the 30-day time horizon" is defined as the sum of all types of expected cash outflows within the 30-day time horizon multiplied by respective run-off rates minus the sum of all types of expected cash inflows within the 30-day time horizon multiplied by respective inflow rates, but no more than 75% of total expected cash outflows as specified by the BoT.

Total net cash outflows within the 30-day time horizon under liquidity stress scenarios	= Total expected cash outflows within the 30-day time horizon under liquidity stress scenarios	- Total expected cash inflows within the 30-day time horizon under liquidity stress scenarios

Percentage of Liquidity Coverage Ratio (%LCR)	LCR is the ratio of total HQLA to total net cash outflows within the 30-day time horizon.