HSBC

2020

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Interim Pillar 3 Disclosures at 30 June 2020

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 2020. It meets the regulatory disclosure requirements under the Bank of Thailand ('BoT') Notifications dated 2 May 2013 and 7 May 2019, 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 prudential metrics

Table 1 : Key prudential metrics

	30 June 2020	31 December 2019
Available capital (THBm)		
Total capital	20,100	20,100
Fully loaded Expected Credit Loss total capital	20,100	20,100
Risk-weighted assets ('RWAs') (THBm)		
Total RWAs	123,258	114,999
Capital ratios (%)		
Capital ratio	16.3	17.5
Fully loaded Expected Credit Loss capital ratio	16.3	17.5
Additional capital buffer requirements as a percentage of RWA (%)		
Capital conservation buffer requirement	2.5	2.5
Countercyclical buffer requirement	-	-
Higher loss absorbency requirement	-	-
Total of capital specific buffer requirements	2.5	2.5
Capital ratio in excess of minimum requirements	5.3	6.5
Total capital ratio requirement (%)		
Total capital ratio including capital buffer	11.0	11.0
Minimum capital ratio requirements	8.5	8.5
Liquidity Coverage Ratio ('LCR')		
Total high-quality liquid assets (THBm)	98,596	63,323
Total net cash outflows (THBm)	56,737	36,325
LCR ratio (%)	174	174

With reference to the implementation of Thai financial reporting standards ("TFRS") 9 'Financial Instruments' effective from 1 January 2020, the BoT set out transitory provisions by allowing the phase in of an impact from the first time adoption of TFRS provisioning to mitigate an impact on capital.

The increase in impairment provision can be adjusted to its retained earnings. If it is resulting in negative retained earnings, it has to recognise by deduct from capital. The BoT permit banks to add back to their capital base on straight-line approach over 6 accounting periods (6-month accounting period).

As of 1 January 2020, our existing provision is in excess the Expected Credit Losses ('ECL') by Baht 900 million. The excess amount from the transition will be released over five years on straight-line basis starting on 1 January 2020 according to the BoT's notification dated 6 November 2019.

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 2020

The Interim Pillar 3 Disclosures 2020 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 2019 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 2020* and the *Pillar 3 Disclosures 2019* on a standalone basis are available on our website: www.about.hsbc.co.th/hsbc-in-thailand, whereas the Pillar 3 Disclosures 2019 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%.

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 2020, we have an allocated and registered capital fund with the BoT of Baht 20,100 million *(31 December 2019: Baht 20,100 million)*. The detail can be summarised as follows:

Table 2 : Capital structure

	30 June 2020 THBm	31 December 2019 THBm
Assets maintained under Section 32	**20,916**	**21,944**
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	11,459	1,607
Total	**31,559**	**21,707**
Regulatory Capital	**20,100**	**20,100**
Regulatory Capital after deducting capital add-on from Single Lending Limit	**20,100**	**20,100**

Table 3 : Capital adequacy

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

	30 June 2020 THBm	31 December 2019 THBm
Performing claims		
Claims on sovereigns and central banks, and multilateral development banks ('MDBs')	13	29
Claims on financial institutions, non-central government public sector entities ('PSEs') treated as claims on financial institutions, and securities firms	1,366	1,348
Claims on corporates, non-central government public sector entities ('PSEs') treated as claims on corporates	7,813	7,237
Claims on retail portfolios	12	13
Claims on housing loans	16	18
Other assets	19	19
Non-performing claims	9	4
Total minimum capital requirement for credit risk	**9,248**	**8,668**

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

	30 June 2020 THBm	31 December 2019 THBm
Standardised approach - specific interest rate risk	4	6
Internal model approach	214	149
Total minimum capital requirement for market risk	**218**	**155**

Minimum capital requirement for operational risk

	30 June 2020 THBm	31 December 2019 THBm
Standardised approach	997	942
Total minimum capital requirement for operational risk	**997**	**942**

Capital ratio

	30 June 2020 %	31 December 2019 %
Total capital to risk-weighted assets	**16.3**	**17.5**
Total capital to risk-weighted assets after deducting capital add-on from Single Lending Limit	**16.3**	**17.5**
Total capital ratio including CCB as specified by the BoT	**11.0**	**11.0**

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 held to collect and sell and held-to-maturity.

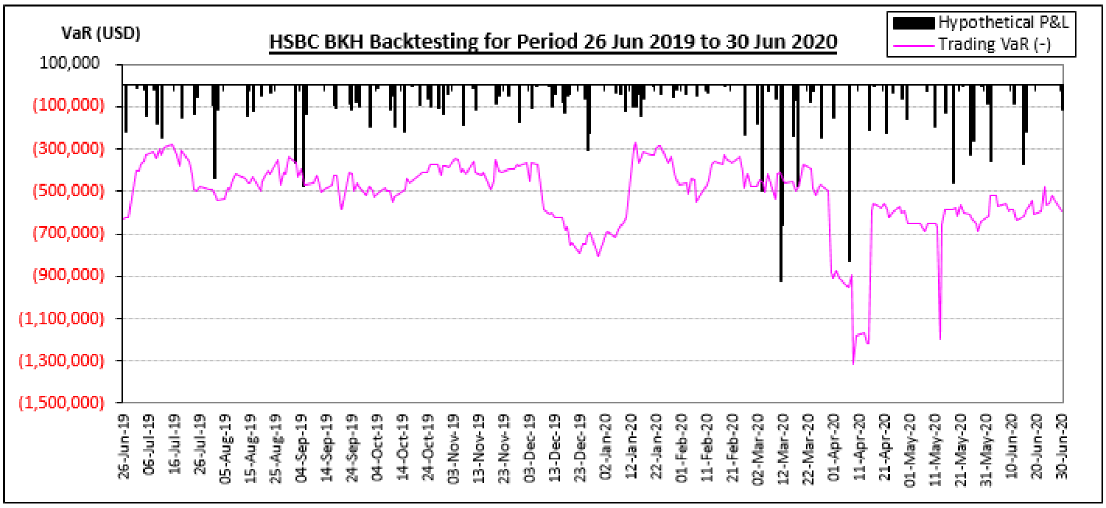
The objective of our market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent within our established risk appetite.

Table 4 : Market risk information by Internal Model Approach at 30 June 2020 and 31 December 2019

	30 June 2020 THBm	31 December 2019 THBm
Interest Rate Risk		
Maximum VaR during the period	126	73
Average VaR during the period	68	46
Minimum VaR during the period	47	32
VaR at the end of the period	63	68
Foreign Exchange Rate Risk		
Maximum VaR during the period	22	20
Average VaR during the period	8	6
Minimum VaR during the period	1	1
VaR at the end of the period	7	20
Total Market Risk		
Maximum VaR during the period	128	77
Average VaR during the period	67	47
Minimum VaR during the period	47	33
VaR at the end of the period	58	77

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



Remark: There were 4 backtest exceptions reported for the period of 26 June 2019 to 30 June 2020.

Liquidity and funding risk

Overview

Liquidity risk is the risk that we do not have sufficient financial resources to meet our obligations as they fall due. Liquidity risk arises from mismatches in the timing of cash flows.

Funding risk is the risk that we cannot raise funding or can only do so at excessive cost.

Liquidity and funding risk management

HSBC maintain a comprehensive liquidity and funding risk management framework ('LFRF'), which aims to allow us to withstand severe liquidity stresses. It is based on global policies that are designed to be adaptable to different business models, markets and regulations. The LFRF comprises policies, metrics and controls designed to ensure that group and entity management have oversight of the liquidity and funding risks in order to manage them appropriately.

The management of liquidity and funding is primarily carried out locally through the local Asset and Liability Management Committees ('ALCO') to ensure that obligations can be met in the jurisdiction where they fall due, generally without reliance on other parts of the group. Operating entities are required to meet internal minimum requirements and any applicable regulatory requirements at all times. These requirements are assessed through the individual liquidity adequacy assessment process ('ILAAP'), which is used to ensure that operating entities have robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intra-day, so as to ensure they maintain adequate levels of liquidity buffers. It informs the validation of risk tolerance and the setting of risk appetite.

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 not less than 100% from 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 concentration risk, liquidity gaps and introduced some internal metrics to monitor liquidity and 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 6 and table 7 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 2019 and the Interim Report 2020 or the Pillar 3 Disclosure at 30 June 2020, which is available on HSBC Group's website: www.hsbc.com, under Investor Relations.

Table 6 : Liquidity coverage ratio ('LCR')

	Average Balance	
	2020 Quarter 2 THBm	**2019 Quarter 2 THBm**
(1) Total high-quality liquid assets ('HQLA')	91,247	80,125
(2) Total net cash outflows within the 30-day time horizon	50,599	40,783
(3) Percentage of Liquidity Coverage Ratio (%LCR)	**180%**	**197%**
Minimum percentage of LCR as specified by the BoT	**100%**	**90%**

Table 7 : Comparative data of LCR

	2020 Average LCR %	**2019 Average LCR %**
Quarter 1	219	245
Quarter 2	180	197

The Bank maintains a healthy liquidity position with the average LCR for the 2nd quarter of 2020 of 180%, which is 80% higher than the minimum LCR requirement as specified by the BoT. This LCR is the average of LCRs as at the end of April – 190%, May – 178% and June – 174%. 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 2020 is Baht 91,247 million, which is the average of HQLA as at the end of April – June. 98% 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 2020 is Baht 50,599 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.