



2021

**The Hongkong and Shanghai Banking
Corporation Limited, Bangkok Branch**

Interim Pillar 3 Disclosures at 30 June 2021

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Introduction

Purpose

This document contains Interim Pillar 3 Disclosures of The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch ('the Bank') at 30 June 2021. 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 2021	31 December 2020
Available capital (THBm)		
Total capital.....	22,600	22,600
Fully loaded Expected Credit Loss total capital.....	22,600	22,600
Risk-weighted assets ('RWAs') (THBm)		
Total RWAs.....	115,688	111,966
Capital ratios (%)		
Capital ratio.....	19.5	20.2
Fully loaded Expected Credit Loss capital ratio.....	19.5	20.2
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.....	<u>2.5</u>	<u>2.5</u>
Capital ratio in excess of minimum requirements.....	8.5	9.2
Total capital ratio requirement (%)		
Total capital ratio including capital buffer.....	11.0	11.0
Minimum capital ratio requirements.....	8.5	8.5
	Average Balance	
	2021	2020
	Quarter 2	Quarter 2
Liquidity Coverage Ratio ('LCR')		
Total high-quality liquid assets (THBm).....	97,944	91,247
Total net cash outflows (THBm).....	54,668	50,599
LCR ratio (%).....	179	180

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). While the provision in excess of Expected Credit Losses ('ECL') would be released over five years on straight-line basis during the transition period starting on 1 January 2020 according to the BoT's notification dated 6 November 2019.

Moreover, the BoT sets out additional guidelines for 1% minimum provisions of unimpaired assets and off-balance sheet items (minimum provisions). If the existing provisions less than 1% minimum provisions, such shortfall of provision would be deducted from retained earnings or capital as appropriated.

As of 1 January 2020, our existing provision was in excess the ECL by Baht 900 million. This surplus reserve would be released over five years on straight-line basis of Baht 180 million per annum. At 30 June 2021, the minimum provisions were Baht 582 million of which the shortfall of Baht 1 million was deducted from retained earnings.

Regulatory framework

The Bank calculates capital for prudential regulatory reporting purposes using the announcement of the BoT regarding a capital adequacy framework 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; Pillar 2, supervisory review process; and Pillar 3, market discipline. The aim of Pillar 3 is to

produce disclosures that allow market participants to assess the scope of banks' application of the Basel Committee's framework. It also aims to assess their application of the rules in their jurisdiction, capital conditions, risk exposures and risk management processes, and hence their capital adequacy.

Interim Pillar 3 Disclosures 2021

The Interim Pillar 3 Disclosures 2021 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 2020 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 2021* and the *Pillar 3 Disclosures 2020* on a standalone basis are available on our website: www.about.hsbc.co.th/hsbc-in-thailand, whereas the Pillar 3 Disclosures 2020 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 driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment in which we operate.

It is our objective to maintain a strong capital base to support the development of our business and to exceed regulatory capital requirements at all times. To achieve this, we manage our capital within the context of an annual capital plan that is approved by the local Asset and Liability Management Committee ('ALCO') and determines the optimal amount and mix of capital required to support planned business growth and meet local regulatory capital 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%. This is result in minimum capital ratio of 11%.

Composition of regulatory capital

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

At 30 June 2021, we have an allocated and registered capital fund with the BoT of Baht 22,600 million (31 December 2020: Baht 22,600 million). Intangible asset is the regulatory adjustment with immaterial to our regulatory capital. The detail can be summarised as follows:

Table 2 : Capital structure

	30 June 2021 THBm	31 December 2020 THBm
Assets maintained under Section 32	25,012	23,340
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.....	22,600	22,600
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.....	14,055	11,010
Total	36,655	33,610
Regulatory Capital	22,600	22,600
Regulatory Capital after deducting capital add-on from Single Lending Limit	22,600	22,600

Table 3 : Capital adequacy

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

	30 June 2021 THBm	31 December 2020 THBm
Performing claims		
Claims on sovereigns and central banks, and multilateral development banks ('MDBs').....	7	22
Claims on financial institutions, non-central government public sector entities ('PSEs') treated as claims on financial institutions, and securities firms.....	1,041	1,499
Claims on corporates, non-central government public sector entities ('PSEs') treated as claims on corporates.....	7,446	6,712
Claims on retail portfolios.....	11	11
Claims on housing loans.....	15	17
Other assets.....	23	17
Non-performing claims	<u>-</u>	<u>1</u>
Total minimum capital requirement for credit risk	<u>8,543</u>	<u>8,279</u>

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

	30 June 2021 THBm	31 December 2020 THBm
Standardised approach - specific interest rate risk.....	-	4
Internal model approach.....	298	223
Total minimum capital requirement for market risk	<u>298</u>	<u>227</u>

Remark:

- *The Bank has approval from the Bank of Thailand to apply a combined approach for market risk. The standardised approach is applied for specific interest rate risk and the internal model approach is applied for interest rate risk and foreign exchange rate risk.*

Minimum capital requirement for operational risk

	30 June 2021 THBm	31 December 2020 THBm
Standardised approach.....	974	997
Total minimum capital requirement for operational risk	<u>974</u>	<u>997</u>

Capital ratio

	30 June 2021 %	31 December 2020 %
Total capital to risk-weighted assets	19.5	20.2
Total capital to risk-weighted assets after deducting capital add-on from Single Lending Limit	19.5	20.2
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.

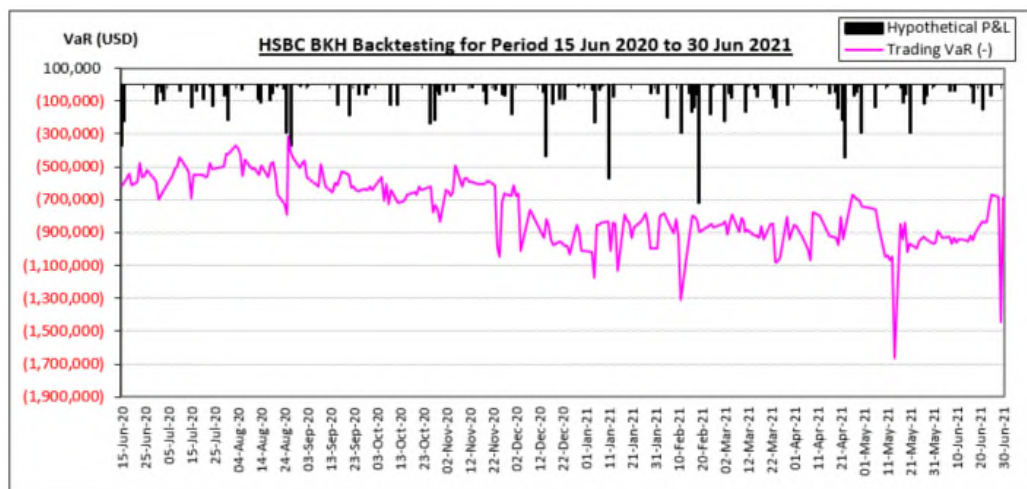
The objective of our market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent within our established risk appetite.

Table 4 : Market risk information by Internal Model Approach at 30 June 2021 and 31 December 2020

	30 June 2021 THBm	31 December 2020 THBm
Interest Rate Risk		
Maximum VaR during the period.....	170	100
Average VaR during the period.....	91	70
Minimum VaR during the period.....	63	48
VaR at the end of the period.....	63	97
Foreign Exchange Rate Risk		
Maximum VaR during the period.....	20	14
Average VaR during the period.....	7	4
Minimum VaR during the period.....	1	1
VaR at the end of the period.....	6	2
Total Market Risk		
Maximum VaR during the period.....	169	99
Average VaR during the period.....	92	70
Minimum VaR during the period.....	68	47
VaR at the end of the period.....	69	96

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: Nil backtest exceptions was reported for the period of 15 June 2020 to 30 June 2021.

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 maintain a comprehensive liquidity and funding risk management framework ('LFRF'), which aims to allow us to withstand severe but plausible liquidity stresses. It is based on global policies that are designed to be adaptable to different 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 ALCO and regional Head Office. Our general policy is that each operating entity should be self-sufficient in funding its own activities.

Governance and structure

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

- the Asset and Liability Management Committees ('ALCOs'); and
- the annual individual liquidity adequacy assessment ('ILAA') used to validate risk tolerance and set risk appetite.

The local ALCO is responsible for managing all ALCM issues including liquidity and funding risk management and also monitors the compliance with liquidity and funding requirements.

Asset, Liability and Capital Management ('ALCM') team is 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.

ALCM manages the balance sheet with a view to achieve efficient allocation and utilization of all resources.

The Markets Treasury team (previously known as Balance Sheet Management), 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.

Treasury Risk Management carry out independent review, challenge and assurance of the appropriateness of the risk management activities undertaken by ALCM and Markets Treasury. They provide oversight and stewardship of liquidity management including setting policy and control standards.

Global Internal Audit provide independent assurance that risk is managed effectively across the Group.

Individual liquidity adequacy assessment ('ILAAP') and risk appetite

Under HSBC's LFRF, the operating entities are required to meet internal minimum requirements and any applicable regulatory requirements at all times. These requirements are assessed through the internal 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. These metrics are set and managed locally but are subject to robust global and regional review and challenge to ensure consistency of approach and application of the LFRF across the Group.

Management of liquidity and funding risk

The critical Board risk appetite measures are the liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR'). The LCR and NSFR metrics are supplemented by an Internal Liquidity Metric ('ILM') in 2021.

An appropriate funding and liquidity profile is managed through a wider set of measures:

- a minimum LCR requirement;
- a minimum NSFR requirement;
- an internal liquidity metric ('ILM')
- a minimum LCR requirement by material currency;
- a depositor concentration limit;
- the three-month and twelve-month cumulative rolling term contractual maturity limits covering deposits from banks and non-bank financial institutions and securities issued;
- a management and monitoring of intraday liquidity;
- the application of liquidity funds transfer pricing; and
- forward-looking funding assessments.

Liquidity and funding risk metrics are monitored daily and/or monthly and reported to ALCO regularly.

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 at no 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 liquidity gaps and introduced the internal metrics on funding concentration to monitor funding risks.

Also, the Bank maintain the contingency plans that can be enacted in the event of internal or external triggers, which threaten the liquidity or funding position. The contingency plans set out a range of appropriate management actions, which could feasibly be executed in a stressed environment to recover the position.

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 2020 and the Interim Report 2021 or the Pillar 3 Disclosure at 30 June 2021, which is available on HSBC Group's website: www.hsbc.com, under Investors section.

Table 6 : Liquidity coverage ratio ('LCR')

	Average Balance	
	2021 Quarter 2 THBm	2020 Quarter 2 THBm
(1) Total high-quality liquid assets ('HQLA').....	97,944	91,247
(2) Total net cash outflows within the 30-day time horizon.....	54,668	50,599
(3) Percentage of Liquidity Coverage Ratio (%LCR).....	179%	180%
Minimum percentage of LCR as specified by the BoT.....	100%	100%

Table 7 : Comparative data of LCR

	2021 Average LCR %	2020 Average LCR %
Quarter 1.....	184	219
Quarter 2.....	179	180

The Bank maintains a healthy liquidity position with the average LCR for the 2nd quarter of 2021 of 179%, which is 79% higher than the minimum LCR requirement as specified by the BoT. This LCR is the average of LCRs as at the end of April – 184%, May – 192% and June – 161%. 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 2021 is Baht 97,944 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 2021 is Baht 54,668 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
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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 <u>net</u> cash outflows within the 30-day time horizon under liquidity stress scenarios	= Total expected cash <u>outflows</u> within the 30-day time horizon under liquidity stress scenarios	- Total expected cash <u>inflows</u> within the 30-day time horizon under liquidity stress scenarios
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Percentage of Liquidity Coverage Ratio (%LCR)

LCR is the ratio of total HQLA to total net cash outflows within the 30-day time horizon.