

**2014**

The Hongkong and Shanghai Banking  
Corporation Limited, Bangkok Branch

Interim Pillar 3 Disclosures at 30 June 2014

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## Introduction

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The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch ('the Bank') calculates capital according to the announcement of the Bank of Thailand ('the BoT') regarding a capital adequacy framework based on Basel III: 'A global regulatory framework for more resilient banks and banking systems' issued by the Basel Committee on Banking Supervision ('BCBS').

Basel III has been developed from Basel II: 'International Convergence of Capital Measurement and Capital Standard'. The supervisory objectives are to strengthen the regulatory capital framework to bear potential loss in normal situation as well as in crisis, building on the three pillars of the Basel II framework. The reforms raise both the quality and quantity of the regulatory capital base and enhance the risk coverage of the capital framework. They are underpinned by a leverage ratio that serves as a backstop to risk-based capital measures. A number of macroprudential elements in the capital framework are introduced to help prevent systemic risks arising from pro-cyclicality and from the interconnectedness of financial institutions.

### Interim Pillar 3 disclosures 2014

The Interim Pillar 3 Disclosures 2014 present summary updates on regulatory capital, capital adequacy and market risk. The disclosures supplement those already made in the Pillar 3 Disclosures 2013 for those risks covered by the disclosure requirements of the BoT.

Pillar 3, market discipline, complements the minimum capital requirements and the supervisory review process. The aim is to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess certain specified information on the scope of application by banks of the Basel framework and the rules in their jurisdiction, their capital condition, risk exposures and risk assessment processes, and hence their capital adequacy.

### Media and location

The *Interim Pillar 3 Disclosures 2014* and the *Pillar 3 Disclosures 2013* on a standalone basis are available on our website: [www.hsbc.co.th](http://www.hsbc.co.th), whereas the Pillar 3 Disclosures 2013 of HSBC Holdings plc and its subsidiaries ('HSBC' or 'Group') on a consolidated level and other information on HSBC are available on HSBC Group's website: [www.hsbc.com](http://www.hsbc.com).

### Verification

The *Interim Pillar 3 Disclosures 2014* are not required to be externally audited, the document has been appropriately verified internally in accordance with the Group's policies on disclosure and its financial reporting and governance processes.

### 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 requirement. 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

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### Capital management

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. We aim to maintain a strong capital base to support the risks inherent in our business and to meet regulatory capital requirements at all times.

Our policy on capital management is underpinned by a capital management framework, which enables us to manage our capital in a consistent and aligned manner. The framework, which is approved by the Group Management Board ('GMB'), incorporates a number of different capital measures including market capitalisation, invested capital, economic capital and regulatory capital. Our strategy is to allocate capital to businesses based on their economic profit generation, regulatory and economic capital requirements and the cost of capital.

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The BoT has issued the notification to revise the components of regulatory capital with effect from 1 January 2013. 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, gain on sale related to securitisation transactions and significant investments in common shares and warrants to be in line with the Basel III framework. The revised adjustments to regulatory capital are being phased in: starting

at 20% on 1 January 2014 and increasing a further 20% each year in order to reach 100% on 1 January 2018. During the transition period, any residual amount not deducted from regulatory capital under the revised adjustments will continue to be subject to the former treatment. As permitted by the BoT regulation, however, we have elected to accelerate this transition and to apply the revisions in full with effect from 1 January 2014.

*Table 1 : Composition of regulatory capital on a Basel III basis during the transition period*

	<b>30 June 2014 THBm</b>	<b>Residual amount THBm</b>
Capital fund .....	16,000	
Less: Regulatory adjustment .....	(2)	-
<b>Regulatory capital .....</b>	<b>15,998</b>	
	<b>31 December 2013 THBm</b>	<b>Residual amount THBm</b>
Capital fund .....	16,000	
Less: Regulatory adjustment .....	-	2
<b>Regulatory capital .....</b>	<b>16,000</b>	

At 30 June 2014 and 31 December 2013, we have an allocated and registered capital fund with the BoT of Baht 16,000 million. The detail can be summarised as follows:

*Table 2 : Capital Structure at 30 June 2014 and 31 December 2013*

	<b>30 June 2014 THBm</b>	<b>31 December 2013 THBm</b>
<b>Assets maintained under Section 32 .....</b>	<b>16,707</b>	<b>16,586</b>
<b>Sum of net capital for maintenance of assets under Section 32 and net balance of inter-office accounts</b>		
Net fund brought in to maintain assets under Section 32 .....	16,000	16,000
Net balance of inter-office accounts which 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 .....	15,192	17,922
<b>Total .....</b>	<b>31,192</b>	<b>33,922</b>
<b>Total Capital Fund .....</b>	<b>16,000</b>	<b>16,000</b>

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**Table 3 : Capital Adequacy at 30 June 2014 and 31 December 2013**

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

	<b>30 June 2014 THBm</b>	<b>31 December 2013 THBm</b>
<b>Performing claims</b>		
Claims on sovereigns and central banks, and multilateral development banks (MDBs).....	11	7
Claims on financial institutions, non-central government public sector entities (PSEs) treated as claims on financial institutions, and securities firms.....	980	1,190
Claims on corporates, non-central government public sector entities (PSEs) treated as claims on corporates.....	5,541	4,921
Claims on retail portfolios.....	11	11
Claims on housing loans.....	19	20
Other assets.....	38	33
<b>Non-performing claims</b> .....	<u>5</u>	<u>5</u>
<b>Total minimum capital requirement for credit risk</b> .....	<u><b>6,605</b></u>	<u><b>6,187</b></u>

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

	<b>30 June 2014 THBm</b>	<b>31 December 2013 THBm</b>
Standardised approach – specific interest rate risk.....	-	5
Internal model approach.....	<u>174</u>	<u>154</u>
<b>Total minimum capital requirement for market risk</b> .....	<u><b>174</b></u>	<u><b>159</b></u>

*Remark: At 30 June 2014, the total holding amount of THB Government bonds is less than the Bank's THB liability, a zero percent risk weight was applied according to the BoT regulations. Therefore, there is no capital requirement for specific interest rate risk under the standardised approach for our holdings of THB Government bonds. The capital requirements for specific interest risk at 30 June 2014 and 31 December 2013 of THB 0.4 million and THB 5 million, respectively arise from the holding of corporate bonds.*

*Minimum capital requirement for operational risk*

	<b>30 June 2014 THBm</b>	<b>31 December 2013 THBm</b>
Standardised approach.....	<u>1,002</u>	<u>1,059</u>
<b>Total minimum capital requirement for operational risk</b> .....	<u><b>1,002</b></u>	<u><b>1,059</b></u>

*Capital ratio*

	<b>30 June 2014 %</b>	<b>31 December 2013 %</b>
<b>Total capital to risk-weighted assets</b> .....	<b>17.5</b>	<b>18.3</b>

## Market risk

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

We separate exposures to market risk into trading and non-trading portfolios. Trading portfolios include positions arising from market-making, from position-taking and others designated as mark-to-market. Non-trading portfolios include positions that

primarily arise from the interest rate management of our commercial banking assets and liabilities, and financial investments designated as available-for-sale and held-to-maturity.

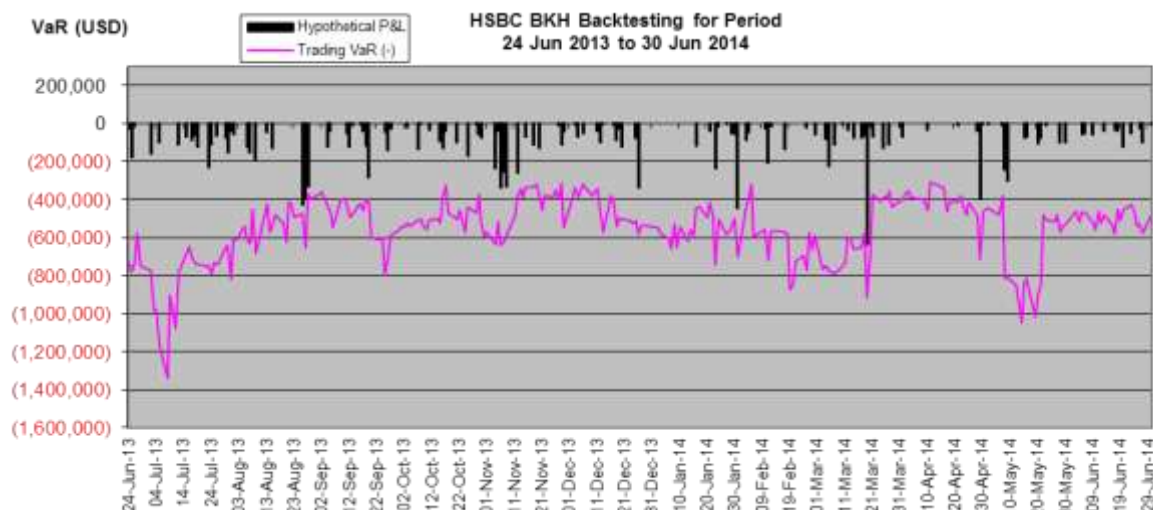
The objective of our market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with the Group's status as one of the world's largest banking and financial services organisations.

Table 4 : Market risk information by Internal Model Approach at 30 June 2014 and 31 December 2013

	30 June 2014 THBm	31 December 2013 THBm
<b>Interest Rate Risk</b>		
Maximum VaR during the period.....	109	64
Average VaR during the period.....	55	45
Minimum VaR during the period.....	34	30
VaR at the end of the period.....	46	64
<b>Foreign Exchange Rate Risk</b>		
Maximum VaR during the period.....	29	51
Average VaR during the period.....	6	14
Minimum VaR during the period.....	1	1
VaR at the end of the period.....	13	24
<b>Total Market Risk</b>		
Maximum VaR during the period.....	107	66
Average VaR during the period.....	54	48
Minimum VaR during the period.....	32	32
VaR at the end of the period.....	50	55

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. VaR)



Remark: There are no exceptions for the period 24 June 2013 to 30 June 2014.