2017

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Interim Pillar 3 Disclosures at 30 June 2017

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Introduction

Purpose

This document comprises the Interim Pillar 3 Disclosures of The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch ('the Bank') on capital at 30 June 2017 to meet the regulatory disclosure under the Bank of Thailand ('the BoT') Notification dated 2 May 2013, Re: The Public Disclosure of Capital Maintenance for Commercial Banks.

Key regulatory information

Regulatory capital at 30 June 2017

THB 20,100m

31 December 2016: THB 20,100m

Capital ratio at 30 June 2017

18.0%

31 December 2016: 18.7%

The Hongkong and Shanghai Banking Corporation Limited is a subsidiary of HSBC Holdings plc ('HSBC' or 'the Group').

Regulatory framework

The Bank calculates capital for prudential regulatory reporting purposes using the announcement of the BoT regarding a capital adequacy framework based on 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': the Pillar 1 minimum capital requirements and Pillar 2 supervisory review process are complemented by Pillar 3 market discipline. The aim of Pillar 3 is to produce disclosures, both quantitative and qualitative which 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 2017

The Interim Pillar 3 Disclosures 2017 present summary updates on regulatory capital, capital adequacy and market risk. The disclosures supplement those already made in the Pillar 3 Disclosures 2016 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 2017* and the *Pillar 3 Disclosures 2016* on a standalone basis are available on our website: www.about.hsbc.co.th/hsbc-in-thailand, whereas the Pillar 3 Disclosures 2016 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.

Verification

Although the *Interim Pillar 3 Disclosures 2017* are not required to be externally audited, the document has been appropriately verified internally in accordance with the Bank'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 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.

Composition of regulatory capital

The BoT has issued the notification to revise the components of regulatory capital effective 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, gains 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.

At 30 June 2017, we have an allocated and registered capital fund with the BoT of Baht 20,100 million *(31 December 2016: Baht 20,100 million)*. The detail can be summarised as follows:

Table 1 : Capital Structure

	30 June 2017 THBm	31 December 2016 THBm
Assets maintained under Section 32	**20,912**	**21,990**
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	20,466	10,136
Total	**40,566**	**30,236**
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	**19,691**	**19,828**

Table 2 : Capital Adequacy

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

	30 June 2017 THBm	31 December 2016 THBm
Performing claims		
Claims on sovereigns and central banks, and multilateral development banks (MDBs)	39	9
Claims on financial institutions, non-central government public sector entities (PSEs) treated as claims on financial institutions, and securities firms	1,201	1,171
Claims on corporates, non-central government public sector entities (PSEs) treated as claims on corporates	7,102	6,547
Claims on retail portfolios	14	14
Claims on housing loans	24	27
Other assets	18	21
Non-performing claims	14	293
Total minimum capital requirement for credit risk	**8,412**	**8,082**

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

	30 June 2017 THBm	31 December 2016 THBm
Standardised approach - specific interest rate risk	7	4
Internal model approach	159	143
Total minimum capital requirement for market risk	**166**	**147**

Minimum capital requirement for operational risk

	30 June 2017 THBm	31 December 2016 THBm
Standardised approach	895	900
Total minimum capital requirement for operational risk	**895**	**900**

Capital ratio

	30 June 2017 %	31 December 2016 %
Total capital to risk-weighted assets	**18.0**	**18.7**
Total capital to risk-weighted assets after deducting capital add-on from Single Lending Limit	**17.7**	**18.4**

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.

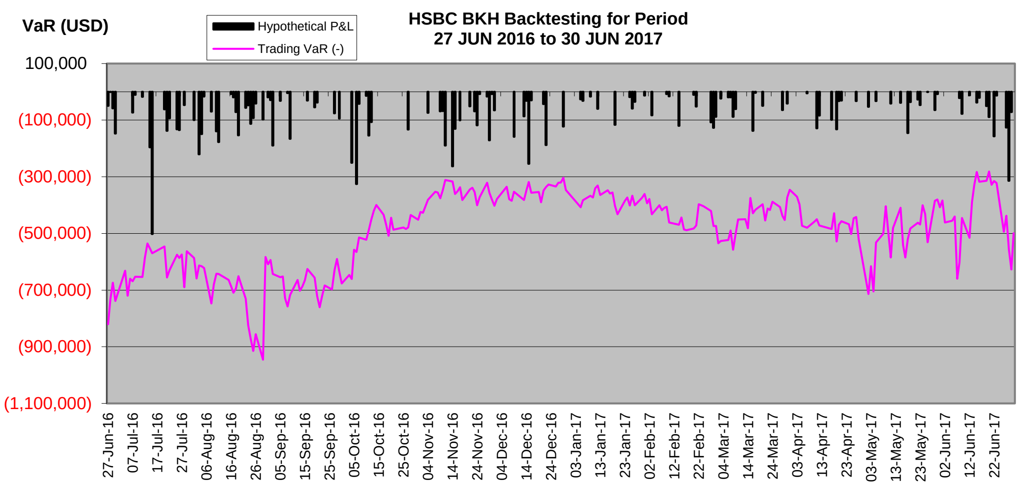
The objective of our market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent within our established risk appetite.

Table 3 : Market risk information by Internal Model Approach at 30 June 2017 and 31 December 2016

	30 June 2017 THBm	31 December 2016 THBm
Interest Rate Risk		
Maximum VaR during the period	71	68
Average VaR during the period	46	45
Minimum VaR during the period	23	36
VaR at the end of the period	61	39
Foreign Exchange Rate Risk		
Maximum VaR during the period	37	21
Average VaR during the period	12	7
Minimum VaR during the period	1	1
VaR at the end of the period	19	1
Total Market Risk		
Maximum VaR during the period	77	64
Average VaR during the period	50	45
Minimum VaR during the period	30	34
VaR at the end of the period	54	39

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 are no exceptions for the period 27 June 2016 to 30 June 2017.