



2016

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

Interim Pillar 3 Disclosures at 30 June 2016

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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 2016 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 2016

THB 20,100m

31 December 2015: THB 20,100m

Capital ratio at 30 June 2016

18.6%

31 December 2015: 17.4%

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

Regulatory framework

The Bank calculates capital according to 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').

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 2016

The Interim Pillar 3 Disclosures 2016 present summary updates on regulatory capital, capital adequacy and market risk. The disclosures supplement those already made in the Pillar 3 Disclosures 2015 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. 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 2016* and the *Pillar 3 Disclosures 2015* on a standalone basis are available on our website: www.hsbc.co.th, whereas the Pillar 3 Disclosures 2015 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 2016* 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 designed to ensure that we exceed 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 exceed 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 2016, we have an allocated and registered capital fund with the BoT of Baht 20,100 million (31 December 2015: Baht 20,100 million). The detail can be summarised as follows:

Table 1 : Capital Structure

	30 June 2016 THBm	31 December 2015 THBm
Assets maintained under Section 32	20,693	21,268
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.....	17,723	14,470
Total	37,823	35,570
Capital fund	20,100	20,100
Less: Regulatory adjustment.....	-	-
Regulatory capital	20,100	20,100

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Table 2 : Capital Adequacy

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

	30 June 2016 THBm	31 December 2015 THBm
Performing claims		
Claims on sovereigns and central banks, and multilateral development banks (MDBs).....	42	2
Claims on financial institutions, non-central government public sector entities (PSEs) treated as claims on financial institutions, and securities firms.....	1,357	1,366
Claims on corporates, non-central government public sector entities (PSEs) treated as claims on corporates.....	7,138	7,184
Claims on retail portfolios.....	15	14
Claims on housing loans.....	28	22
Other assets.....	23	22
Non-performing claims	<u>7</u>	<u>96</u>
Total minimum capital requirement for credit risk	<u>8,610</u>	<u>8,706</u>

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

	30 June 2016 THBm	31 December 2015 THBm
Standardised approach - specific interest rate risk.....	13	16
Internal model approach.....	238	185
Total minimum capital requirement for market risk	<u>251</u>	<u>201</u>

Minimum capital requirement for operational risk

	30 June 2016 THBm	31 December 2015 THBm
Standardised approach.....	966	895
Total minimum capital requirement for operational risk	<u>966</u>	<u>895</u>

Capital ratio

	30 June 2016 %	31 December 2015 %
Total capital to risk-weighted assets	18.6	17.4

Market risk

Market risk is the risk that movements in market factors, including foreign exchange rate, interest rates, credit spreads and equity prices and commodity 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 and the warehousing of customer-derived positions.

- 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.

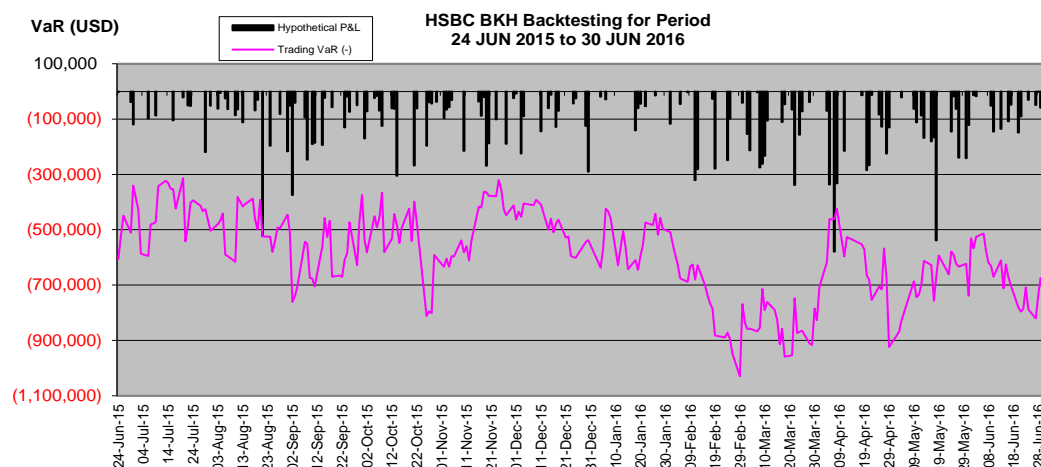
The objective of our market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with the Group's status as one of the world's largest banking and financial services organisations.

Table 3 : Market risk information by Internal Model Approach at 30 June 2016 and 31 December 2015

	30 June 2016 THBm	31 December 2015 THBm
Interest Rate Risk		
Maximum VaR during the period	103	92
Average VaR during the period	74	58
Minimum VaR during the period	47	37
VaR at the end of the period	84	63
Foreign Exchange Rate Risk		
Maximum VaR during the period	18	33
Average VaR during the period	7	6
Minimum VaR during the period	1	1
VaR at the end of the period	5	1
Total Market Risk		
Maximum VaR during the period	103	93
Average VaR during the period	75	58
Minimum VaR during the period	47	37
VaR at the end of the period	82	61

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 one backtesting exception reported for the period of 24 June 2015 to 30 June 2016.