

2013

The Hongkong and Shanghai Banking
Corporation Limited, Bangkok Branch

Pillar 3 Disclosures at 31 December 2013

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Cautionary statement regarding forward-looking statements

The *Pillar 3 Disclosures 2013* contains certain forward-looking statements with respect to the financial condition of The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch (‘the Bank’), results of operations and business.

Statements that are not historical facts, including statements about the Bank’s beliefs

and expectations, are forward-looking statements. Words such as ‘expects’, ‘anticipates’, ‘intends’, ‘plans’, ‘believes’, ‘seeks’, ‘estimates’, ‘potential’ and ‘reasonably possible’, variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them.

Forward-looking statements speak only as of the date they are made. The Bank makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statements.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. These factors include changes in general economic conditions in the markets in which we operate, changes in government policy and regulation and factors specific to the Bank.

Introduction

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.

Pillar 3 disclosures 2013

Basel II 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 which allow market participants to assess 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. Pillar 3 requires all material risks to

be disclosed, enabling a comprehensive view of a bank's risk profile.

Frequency

In accordance with the BoT's requirements, we published comprehensive Pillar 3 disclosures annually with an update of certain quantitative capital requirement disclosures, including market risk information, at the half year.

Media and location

The *Pillar 3 Disclosures 2013* on a standalone basis are available on our website: 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.

Verification

Whilst the *Pillar 3 Disclosures 2013* are not required to be externally audited, the document has been verified internally in accordance with the Group's policies on disclosure and its financial reporting and governance processes.

Scope of permissions

Credit risk

Basel II applies three approaches of increasing sophistication to the calculation of pillar 1 credit risk capital requirements. The most basic level, the standardised approach ('SA'), requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are grouped into broad categories and standardised risk weightings are applied to these categories.

The next level, the internal ratings-based ('IRB') foundation approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty's probability of default ('PD'), but subjects their quantified estimates of exposure at default ('EAD') and loss given default ('LGD') to standard supervisory parameters. Finally, the IRB advanced approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD.

For credit risk, with the BoT's approval, we have adopted the standardised approach.

Counterparty credit risk in both the trading and non-trading books is the risk that the counterparty to a transaction may default before completing the satisfactory settlement

of the transaction. Three approaches to calculating counterparty credit risk and determining exposure values are defined by Basel II: standardised, mark-to-market and internal model method ('IMM'). These exposure values are used to determine capital requirements under one of the credit risk approaches; standardised, IRB foundation and IRB advanced.

Internally, we use the mark-to-market and IMM approaches for managing and monitoring our counterparty credit risk.

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.

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

Basel II also includes capital requirements for operational risk, again utilising three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues, whereas under the standardised approach it is one of three different percentages of gross revenues allocated to each of eight defined business lines. Both these approaches use an average of the last three financial years' revenues. Finally, the advanced measurement approach uses banks' own statistical analysis and modelling of operational risk data to determine capital requirements.

We have adopted the standardised approach in determining our operational risk capital requirements.

Capital

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 capital management process culminates in the annual Group capital plan, which is approved by the Board. HSBC Holdings is the primary provider of equity capital to its subsidiaries and also provides them with non-equity capital where necessary. These investments are substantially funded by HSBC Holdings' issuance of equity and non-equity capital by profit retention.

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 HSBC Holdings, normally by way of dividends, in accordance with the Group's capital plan.

The BoT has issued the notification to revise the components of regulatory capital with effective on 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 asset, gain on sale related to securitisation transactions and significant investments in common shares and warrant to be in line with the Basel III framework. The revised regulatory adjustments will begin at 20% of required adjustment to regulatory capital on 1 January 2014, 40% on 1 January 2015, 60% on 1 January 2016, 80% on 1 January 2017 and reach 100% on 1 January 2018. During this transition period, the remainder not deducted from regulatory capital will continue to be subject to existing national treatments.

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

	31 December 2013 THBm	Residual regulatory adjustment THBm
Capital fund	16,000	
Less: Regulatory adjustment	-	2
Regulatory capital	<u>16,000</u>	

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At 31 December 2013, we have an allocated and registered capital fund with the BoT of Baht 16,000 million (30 June 2013 and 31 December 2012 : Baht 11,649 million). The detail can be summarised as follows:

Table 2 : Capital Structure

	31 December 2013	30 June 2013	31 December 2012
	THBm	THBm	THBm
Assets maintained under Section 32.....	16,586	12,167	12,165
Sum of net capital for maintenance of assets under Section 32 and net balance of inter-office accounts			
Net fund brought in to maintenance assets under Section 32.....	16,000	11,649	11,649
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.....	17,922	17,397	15,090
Total	33,922	29,046	26,739
Total Capital Fund	16,000	11,649	11,649

Table 3 : Capital Adequacy

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

	31 December 2013	30 June 2013	31 December 2012
	THBm	THBm	THBm
Performing claims			
Claims on sovereigns and central banks, and multilateral development banks (MDBs).....	7	12	44
Claims on financial institutions, non-central government public sector entities (PSEs) treated as claims on financial institutions, and securities firms.....	1,190	973	667
Claims on corporates, non-central government public sector entities (PSEs) treated as claims on corporates.....	4,921	4,454	3,581
Claims on retail portfolios.....	11	12	10
Claims on housing loans.....	20	21	20
Other assets.....	33	40	30
Non-performing claims	5	4	5
Total minimum capital requirement for credit risk	6,187	5,516	4,357

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

	31 December 2013	30 June 2013	31 December 2012
	THBm	THBm	THBm
Standardised approach - specific interest rate risk.....	5	8	6
Internal model approach.....	154	233	288
Total minimum capital requirement for market risk	159	241	294

Minimum capital requirement for operational risk

	31 December 2013	30 June 2013	31 December 2012
	THBm	THBm	THBm
Standardised approach.....	1,059	1,120	957
Total minimum capital requirement for operational risk	1,059	1,120	957

Capital ratio

	31 December 2013	30 June 2013	31 December 2012
	%	%	%
Total capital to risk-weighted assets	18.3	14.4	15.6

Note: The minimum regulatory capital ratio for a foreign branch is 8.5% starting from 1 January 2013 while previously is 7.5%.

Risk exposure and assessment

Risk management objectives and policies

Overview

All our activities involve to varying degrees the measurement, evaluation, acceptance and management of risks. As risk is not static, our risk profile continually alters as a result of change in the scope and impact of a wide range of factors, from geopolitical to transactional. Our risk management framework is designed for the continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions.

The objective of risk management, shared across the organisation, is to support the Group's strategic priorities to build sustainable, profitable businesses in the long-term interests of our shareholders and other stakeholders. We aim to ensure that risk management is embedded in how we run our business.

- a historically strong risk culture, with personal accountability for decisions;
- a formal governance structure, with a clear, well understood framework of risk ownership, standards and policy;
- the alignment of risk and business objectives, with integration of risk appetite into business planning and capital management; and
- an independent, and expert Global Risk function.

Risk culture

HSBC has long recognised the importance of a strong risk culture, the fostering of which is a key responsibility of senior executives. Our global standards set the tone from the top, and are central to our approach to balancing risk and reward. All staff play a role in the management of risk as part of our 'three lines of defence' model and are accountable for identifying, assessing and managing risks within the scope of their assigned responsibilities. We have a system of personal, not collective, authorities for lending decisions. Personal accountability, reinforced by our HSBC Values, helps sustain a disciplined and constructive culture of risk management and control throughout HSBC. Our risk culture is also reinforced by our approach to remuneration.

Risk governance

The Group Risk Committee ('GRC') is responsible for advising the Board on high-level risk related matters and risk governance and for non-executive oversight of risk management and internal controls (other than over financial reporting).

All of HSBC's activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risk or combinations of risks. The Board, advised by the Committee, requires and encourages a strong risk governance culture which shapes the Group's attitude to risk. The Board and the Committee oversee the maintenance and development of a strong risk management framework by continually monitoring the risk environment, top and emerging risks facing the Group and mitigating actions planned and taken.

Risk management objectives are integrated into the performance scorecards of the heads of regions, global businesses and key functions from the Group Management Board ('GMB') down, and cascaded through the organisation. The objectives of Global Risk are also aligned through this process with strategic business objectives.

The Global Risk function, headed by the Group Chief Risk Officer ('GCRO'), is mandated to provide an expert, integrated and independent assessment of risks Group-wide.

Global Risk:

- forms the second line of defence, with responsibility for setting policy and for providing oversight and challenge of the activities conducted by the first line.
- supports our global businesses, regions, countries and global functions in the development and achievement of strategic objectives;
- fosters development of a conservative but constructive Group risk culture;
- partners the global businesses, regions, countries and global functions in risk appetite planning and monitoring;
- carries out central approvals, controls, risk systems leadership and the analysis and reporting of management information;

- addresses risk issues in dealings with external stakeholders including regulators and analysts; and
- in addition to ‘business as usual’ operations, engages with business development activities such as new product approval and post-implementation review, and acquisition due diligence.

In Thailand, the Risk Management Committee (‘RMC’) is chaired by the Chief Executive Officer (‘CEO’) with membership made up of senior managers. The RMC is the Bank’s senior designated risk management committee as defined by the HSBC Regional Office in Hong Kong which is responsible for setting risk appetite and approving definitive risk policies and controls.

The members of Risk Management Committee are the Chief Risk Officer, Chief Financial Officer, Chief Operating Officer, Treasurer, Head of Global Banking and Head of Commercial Banking. The RMC meeting is chaired by CEO and convened on a monthly basis.

Risk appetite

Risk appetite is a key component of our management of risk. Our approach is designed to reinforce the integration of risk considerations into key business goals and planning processes. The risk appetite statement, which is approved annually by the Board under advice from the GRC, and whose implementation is overseen by the GMB, describes the types and levels of risk that we are prepared to take in executing our strategy.

Our risk appetite framework is underpinned by the following core characteristics:

- risk must be commensurate with sustainable returns
- strong balance sheet
- healthy capital position
- conservative liquidity management
- strong brand
- robust Group structure of separate legal entities
- the global businesses should produce sustainable long-term earnings growth
- risk diversification

Risk measurement and reporting systems

The purpose of our risk measurement and reporting systems is to ensure that, as far as possible, risks are comprehensively captured with all the attributes necessary to support well-founded decisions, that those attributes are accurately assessed and that information is delivered in a timely way for those risks to be successfully managed and mitigated.

Risk measurement and reporting systems are also subject to a governance framework designed, to ensure that their build and implementation are fit for purpose and that they are functioning properly. Risk information technology (‘IT’) systems development is a key responsibility of the Global Risk function globally, while the development and operation of risk rating and management systems and processes are ultimately subject to the oversight of the Board.

We continue to invest significant resources in IT systems and processes in order to maintain and improve our risk management capabilities. Group policy promotes the deployment of preferred technology where practicable. Group standards govern the procurement and operation of systems used in the Group to process risk information within business lines and risk functions.

Internal capital adequacy assessment

We assess the adequacy of our capital by considering the resources necessary to cover unexpected losses arising from discretionary risks, such as credit risk and market risk, or non-discretionary risks, such as operational risk and reputational risk. The framework, together with related policies, define the Internal Capital Adequacy Assessment Process (‘the ICAAP’) by which GMB examines our risk profile from both regulatory and economic capital viewpoints, aiming to ensure that capital resources:

- remain sufficient to support our risk profile and outstanding commitments;
- exceed current regulatory requirements and HSBC is well placed to meet those expected in the future;
- allow the bank to remain adequately capitalised in the event of a severe economic downturn stress scenario; and
- remain consistent with our strategic and operational goals.

Preserving our strong capital position remains a priority, and the level of integration of our risk and capital management helps to optimise our response to business demand for regulatory and economic capital.

We identify and manage the risks we face through defined internal control procedures and stress testing. We assess and manage certain risks outlined below via a capital planning process.

Credit, market and operational risk

We assess capital requirements for these risk types by utilising the embedded operational infrastructure used for the pillar 1 capital calculation, together with an additional suite of models that take into account, in particular, internal assessments of diversification of risks within our portfolios and, similarly, any concentrations of risk that arise.

Our capital assessment operates alongside the regulatory capital process and consistently demonstrates a lower overall capital requirement for credit risk than the regulatory equivalent, reflecting the benefits of global diversification. However, we maintain a prudent stance on capital coverage, ensuring that any model risk is mitigated.

Interest rate risk in the banking book

Interest Rate Risk in the Banking Book ('IRRBB') is defined as the exposure of our non-trading products to interest rates.

This risk arises principally from mismatches between the future yield on assets and their funding costs as a result of interest rate changes. Analysis of this risk is complicated by having to make assumptions on embedded optionality within certain product areas such as the incidence of mortgage prepayments, and from behavioural assumptions regarding the economic duration of liabilities which are contractually repayable on demand, such as current accounts.

Liquidity risk

Liquidity risk arises from mismatches in the timing of cash flows. Liquidity risk arises when the liquidity needed to fund illiquid asset positions cannot be obtained at the expected terms and when required.

The objective of our liquidity and funding management framework is to ensure that all foreseeable funding commitments can be met

when due, and that access to the wholesale markets is co-ordinated and cost-effective.

We use cash-flow stress testing as part of our control processes to assess liquidity risk. We do not manage liquidity through the explicit allocation of capital as, in common with standard industry practice, this is not considered to be an appropriate or adequate mechanism for managing these risks. However, we recognise that a strong capital base can help to mitigate liquidity risk both by providing a capital buffer to allow an entity to raise funds and deploy them in liquid positions, and by serving to reduce the credit risk taken by providers of funds to the Group.

Reputational risk

As a banking group, our good reputation depends upon the way in which we conduct our business, but it can also be affected by the way in which clients, to whom we provide financial services, conduct themselves. The safeguarding of our reputation is paramount and is the responsibility of all members of staff, supported by a global risk management structure, underpinned by relevant policies and practices, readily available guidance and regular training. Our continuing emphasis on values makes these more explicit, to ensure we meet the expectations of society, customers and regulators.

HSBC in Thailand manages and monitors our reputational risk via the RMC. We monitor reputational risk on a daily basis and inform local senior management in a timely manner if there are occurrences of any reputational risk events.

Business risk

Business risk is the potential negative impact on profits and capital as a result of the Bank not meeting our strategic objectives, as a result of unforeseen changes in the business and regulatory environment, exposure to economic cycles and technological changes.

We manage and mitigate business risk through our business planning and stress testing processes, so that our business model and planned activities are resourced and capitalised consistent with the commercial, economic and risk environment in which the Group operates and that any potential vulnerabilities of our business plans are identified at an early stage so that mitigating actions can be taken.

Credit risk

General information on credit risk exposure

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending and trade finance, but also from off-balance sheet products such as guarantees and derivatives, and from the holdings of debt and other securities. Credit risk represents our largest regulatory capital requirement. This includes a capital requirement for counterparty credit risk in the banking and trading books.

The principal objectives of our credit risk management are:

- to maintain a strong culture of responsible lending, and a robust credit risk policy and control framework;
- to both partner and challenge our businesses in defining, implementing and continually re-evaluating our credit risk appetite under actual and stress scenario conditions; and

- to ensure there is independent, expert scrutiny of credit risks, their costs and their mitigation.

We use the Standardised Approach to calculate capital requirement for credit risks. Non-performing claims represent classified assets/loans under substandard, doubtful, doubtful loss and loss accounts according to the BoT's guideline. The specific provision has been provided for non-performing assets/loans based on the estimated losses which were calculated by discounting expected future cash flows (inclusive of the value of security). The general provision has been calculated based on collective impairment for which historical loss rate experience, time value and economic factors have been taken into account.

The following tables set out credit risk exposure value according to regulatory requirement at 31 December 2013 and 2012.

Credit risk

General information on credit risk exposure

Table 4: Credit risk exposure of significant on-balance sheet and off-balance sheet exposures before recognised credit risk mitigation at 31 December 2013 and 2012

	31 December 2013		31 December 2012	
	Average exposure value THBm	Exposure value THBm	Average exposure value THBm	Exposure value THBm
On-balance sheet				
Loans and advances, net	112,901	99,313	120,759	109,483
Investments in debt securities, net	50,429	56,379	59,958	55,956
Deposits (including accrued interest receivable)	1,709	1,511	3,088	1,335
Derivative assets	34,898	43,942	32,820	29,307
Total	199,937	201,145	216,625	196,081
Off-balance sheet				
Aval, guarantees and letter of credit	30,561	31,011	27,438	29,952
OTC derivatives	3,888,871	3,562,215	3,930,514	3,781,961
Undrawn commitment	65,730	72,250	74,524	70,040
Total	3,985,162	3,665,476	4,032,476	3,881,953

Remark:

- Loans and advances represent loans to customers and interbank and money market placements including accrued interest receivable and net of deferred revenue and allowances for doubtful accounts.
- Investments in debt securities are measured at fair value excluding accrued interest receivable and net of any loss on impairment.
- Off-balance sheet represents the notional amounts before the application of a credit conversion factor.

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Table 5: Credit risk exposure of significant on-balance sheet and off-balance sheet exposures before recognised credit risk mitigation – analysis by country or geographical area at 31 December 2013 and 2012

Exposure values are allocated to region based on the country of incorporation where the exposure was originated.

Country or geographical area	31 December 2013					31 December 2013			
	On-balance sheet					Off-balance sheet			
	Total THBm	Loans and advances THBm	Investments in debt securities THBm	Deposits THBm	Derivative assets THBm	Total THBm	Aval, guarantees and letter of credit THBm	OTC derivatives THBm	Undrawn commitment THBm
Thailand	153,869	96,393	56,379	1,097	20,672	1,373,037	22,516	1,281,889	68,632
Asia Pacific (excluding Thailand)	19	-	-	19	13,602	1,493,980	3,301	1,490,070	609
North America and Latin America	1,053	673	-	380	5,281	371,219	2,824	366,104	2,291
Africa	2,247	2,247	-	-	-	492	-	-	492
Europe	15	-	-	15	4,387	426,748	2,370	424,152	226
Total	157,203	99,313	56,379	1,511	43,942	3,665,476	31,011	3,562,215	72,250

Country or geographical area	31 December 2012					31 December 2012			
	On-balance sheet					Off-balance sheet			
	Total THBm	Loans and advances THBm	Investments in debt securities THBm	Deposits THBm	Derivative assets THBm	Total THBm	Aval, guarantees and letter of credit THBm	OTC derivatives THBm	Undrawn commitment THBm
Thailand	165,984	109,421	55,956	607	9,138	1,328,658	23,893	1,238,274	66,491
Asia Pacific (excluding Thailand)	27	3	-	24	11,883	1,580,194	3,021	1,576,082	1,091
North America and Latin America	561	2	-	559	3,100	416,891	2,220	412,259	2,412
Europe	202	57	-	145	5,186	556,210	818	555,346	46
Total	166,774	109,483	55,956	1,335	29,307	3,881,953	29,952	3,781,961	70,040

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Table 6 : Credit risk exposure of significant on-balance sheet and off-balance sheet exposures before recognised credit risk mitigation – analysis by residual maturity at 31 December 2013 and 2012

	31 December 2013			31 December 2012		
	Less than 1 year THBm	Over 1 year THBm	Total THBm	Less than 1 year THBm	Over 1 year THBm	Total THBm
On-balance sheet						
Loans and advances, net	82,565	16,748	99,313	98,235	11,248	109,483
Investments in debt securities, net	42,117	14,262	56,379	34,870	21,086	55,956
Deposits (including accrued interest receivable)	1,511	-	1,511	1,335	-	1,335
Derivative assets	17,060	26,882	43,942	9,057	20,250	29,307
Total	143,253	57,892	201,145	143,497	52,584	196,081
Off-balance sheet						
Aval, guarantees and letter of credit	29,419	1,592	31,011	28,084	1,868	29,952
OTC derivatives	1,720,559	1,841,656	3,562,215	2,072,109	1,709,852	3,781,961
Undrawn commitment	68,731	3,519	72,250	67,732	2,308	70,040
Total	1,818,709	1,846,767	3,665,476	2,167,925	1,714,028	3,881,953

Table 7 : Outstanding loans including accrued interest receivable and investments in debt securities classified as doubtful loss before recognised credit risk mitigation – analysis by country or geographical area and asset classification as prescribed by the Bank of Thailand at 31 December 2013 and 2012

Country or geographical area	31 December 2013					Investments in debt securities classified as doubtful loss THBm
	Loans including accrued interest receivable					
	Normal THBm	Special mentioned THBm	Substandard THBm	Doubtful THBm	Doubtful loss THBm	Total THBm
Thailand	96,309	414	1	259	240	97,223
North America and Latin America	679	-	-	-	-	679
Africa	2,270	-	-	-	-	2,270
Total	99,258	414	1	259	240	100,172

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Country or geographic area	31 December 2012					Total THBm	Investments in debt securities classified as doubtful loss THBm
	Loans including accrued interest receivable						
	Normal THBm	Special mentioned THBm	Substandard THBm	Doubtful THBm	Doubtful loss THBm		
Thailand	109,230	586	5	277	247	110,345	5
Asia Pacific (excluding Thailand)	-	-	3	-	-	3	-
North America and Latin America	2	-	-	-	-	2	-
Europe	57	-	-	-	2	59	-
Total	109,289	586	8	277	249	110,409	5

Remark:

- Loans represent loans to customers, interbank and money market, including accrued interest receivable and net of deferred revenue.
- Investments in debt securities classified as doubtful loss represent unrealised losses on revaluation according to the definition of the BoT's Notification RE: Classification and Provision of the Financial Institutions.
- The classification of assets shown above is in accordance with BoT notification No. 31/2551 dated 3 August 2008 Re: Classification and Provision of the Financial Institutions.

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Table 8 : General provision, specific provision and bad debt written-off during the year against loans including accrued interest receivable and investments in debt securities – analysis by country or geographic area at 31 December 2013 and 2012

Country or geographic area	31 December 2013			
	Loans including accrued interest receivable			Specific provision for investments in debt securities THBm
	General provision THBm	Specific provision THBm	Bad debt written-off during the year THBm	
Thailand.....		375	3	3
Asia Pacific (excluding Thailand).....		-	-	-
North America and Latin America.....		-	-	-
Europe.....		-	-	-
Total	484	375	3	3

Country or geographic area	31 December 2012			
	Loans including accrued interest receivable			Specific provision for investments in debt securities THBm
	General provision THBm	Specific provision THBm	Bad debt written-off during the year THBm	
Thailand.....		515	58	5
Asia Pacific (excluding Thailand).....		-	-	-
North America and Latin America.....		-	-	-
Europe.....		2	-	-
Total	408	517	58	5

Remark:

- Specific provisions for investments in debt securities represent unrealised losses on the revaluation of debt securities at the year end.

Table 9 : Outstanding loans including accrued interest receivable before recognised credit risk mitigation – analysis by type of business and asset classification as prescribed by the Bank of Thailand at 31 December 2013 and 2012

Type of business	31 December 2013					
	Normal THBm	Special mentioned THBm	Substandard THBm	Doubtful THBm	Doubtful loss THBm	Total THBm
Agriculture and mining.....	1,137	-	-	-	-	1,137
Financial sector.....	63,069	147	-	-	-	63,216
Manufacturing and commerce.....	27,972	222	-	159	235	28,588
Real estate business and construction.....	855	-	-	100	-	955
Public utilities and services.....	5,804	45	-	-	-	5,849
Housing loan.....	290	-	-	-	-	290
Others.....	131	-	1	-	5	137
Total	99,258	414	1	259	240	100,172

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Type of business	31 December 2012					
	Normal THBm	Special mentioned THBm	Substandard THBm	Doubtful THBm	Doubtful loss THBm	Total THBm
Agriculture and mining	112	-	-	-	-	112
Financial sector	78,614	-	-	-	-	78,614
Manufacturing and commerce	21,107	447	-	177	247	21,978
Real estate business and construction	754	-	-	100	-	854
Public utilities and services	7,323	68	-	-	-	7,391
Housing loan	308	-	-	-	-	308
Others	1,071	71	8	-	2	1,152
Total	109,289	586	8	277	249	110,409

Remark: The classification of assets shown above is in accordance with BoT notification No. 31/2551 dated 3 August 2008 Re: Classification and Provision of the Financial Institutions.

Table 10 : General provision, specific provision and bad debt written-off during the year against loans including accrued interest receivable – analysis by type of business at 31 December 2013 and 2012

Type of business	31 December 2013		
	General provision THBm	Specific provision THBm	Bad debt written-off during the year THBm
Agriculture and mining		-	-
Financial sector		-	-
Manufacturing and commerce		373	-
Real estate business and construction		-	-
Public utilities and services		-	-
Housing loan		-	-
Others		2	3
Total	484	375	3

Type of business	31 December 2012		
	General provision THBm	Specific provision THBm	Bad debt written-off during the year THBm
Agriculture and mining		-	-
Financial sector		-	-
Manufacturing and commerce		414	58
Real estate business and construction		100	-
Public utilities and services		-	-
Housing loan		-	-
Others		3	-
Total	408	517	58

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Table 11 : Reconciliation of the movement in the general provision and specific provision against loans including accrued interest receivable at 31 December 2013 and 2012

	31 December 2013		
	General provision THBm	Specific provision THBm	Total THBm
Provisions at the beginning of year.....	408	517	925
Bad debts written-off during the year.....	-	(3)	(3)
Provisions charge (reversal) during the year.....	76	(139)	(63)
Provisions at the end of year.....	484	375	859

	31 December 2012		
	General provision THBm	Specific provision THBm	Total THBm
Provisions at the beginning of year.....	928	688	1,616
Bad debts written-off during the year.....	-	(58)	(58)
Provisions charge (reversal) during the year.....	(520)	(113)	(633)
Provisions at the end of year.....	408	517	925

Remark: The above information also includes interbank and money market transactions.

Table 12 : Net exposure of on-balance sheet and credit equivalent amount of off-balance sheet before recognised credit risk mitigation classified by type of assets under the Standardised Approach at 31 December 2013 and 2012

	31 December 2013		
	On-balance sheet THBm	Off-balance sheet THBm	Total THBm
Performing claims			
Claims on sovereigns and central banks, and MDBs.....	37,796	12,419	50,215
Claims on financial institutions, PSEs treated as claims on financial institutions, and securities firms.....	2,178	83,255	85,433
Claims on corporate, PSEs treated as claims on corporate.....	42,133	23,052	65,185
Claims on retail portfolios.....	132	-	132
Claims on housing loans.....	290	-	290
Other assets.....	44,770	-	44,770
Non-performing claims.....	124	58	182
Total.....	127,423	118,784	246,207

	31 December 2012		
	On-balance sheet THBm	Off-balance sheet THBm	Total THBm
Performing claims			
Claims on sovereigns and central banks, and MDBs.....	40,032	42,912	82,944
Claims on financial institutions, PSEs treated as claims on financial institutions, and securities firms.....	3,230	62,116	65,346
Claims on corporate, PSEs treated as claims on corporate.....	34,045	19,976	54,021
Claims on retail portfolios.....	134	-	134
Claims on housing loans.....	310	-	310
Other assets.....	23,689	-	23,689
Non-performing claims.....	18	77	95
Total.....	101,458	125,081	226,539

Remark:

- The above information has been presented net of specific provision.
- Off-balance sheet amounts have been adjusted by the credit conversion factor and also included repo style transactions.

Ratings from External Credit Assessment Institutions

Credit risk under the Standardised Approach has been calculated based on the external credit ratings from External Credit Assessment Institutions ('ECAI'). The Bank uses external credit ratings from the following ECAIs which are approved by the BoT.

- Standard & Poor's Ratings Service;
- Moody's Investors Services;
- Fitch Ratings;
- Fitch Ratings (Thailand);
- TRIS Rating

Data files of external ratings from the nominated ECAIs are matched with the customer records in the centralised credit database.

When calculating the risk-weighted value of an exposure using ECAI risk assessments, risk systems identify the customer in question and lookup in the available ratings in the central database, according to the BoT's rating selection rules as prescribed in the appendix 4 of the BoT's guideline on Minimum Capital Requirement for Credit Risk under the Standardised Approach. The systems then apply the BoT's prescribed credit quality step mapping to derive from the rating the relevant risk weight.

Credit risk mitigation

Our approach when granting credit facilities is to do so on the basis of capacity to repay rather than place primary reliance on credit risk mitigation. Depending on a customer's standing and the type of product, facilities may be provided unsecured. Mitigation of credit risk is nevertheless a key aspect of effective risk management and, in a diversified financial services organisation, takes many forms.

Our general policy is to promote the use of credit risk mitigation, justified by commercial prudence and good practice as well as capital efficiency. Specific, detailed policies cover the acceptability, structuring and terms of various types of business with regard to the availability of credit risk mitigation, for example in the form of collateral security. These policies, together with the setting of suitable valuation parameters, are subject to regular review to ensure that they are supported by empirical evidence and continue to fulfill their intended purpose.

The most common method of mitigating credit risk is to take collateral. Usually, in our residential and commercial real estate businesses, a mortgage over the property is taken to help secure claims. In the commercial and industrial sectors, charges are created over business assets such as premises, stock and debtors. Facilities to Small and Medium Enterprises are commonly granted against guarantees given by their owners and/or directors. Guarantees from third parties can arise where the Bank extends facilities without the benefit of any alternative form of security, e.g. where it issues a bid or performance bond in favour of a non-customer at the request of another bank.

In the institutional sector, trading facilities are supported by charges over financial instruments such as cash, debt securities and equities. Financial collateral in the form of marketable securities is used in much of the Bank's over-the-counter ('OTC') derivatives activities and in securities financing transactions ('SFT') such as repos, reverse repos, securities lending and borrowing. Netting is used extensively and is a prominent feature of market standard documentation.

Our Global Banking and Markets business utilises credit risk mitigation to manage the credit risk of its portfolios, with the goal of reducing concentrations in individual names, sectors or portfolios. The techniques in use

include credit default swaps ('CDS') purchases, structured credit notes and securitisation structures. Buying credit protection creates credit exposure against the protection provider.

Policies and procedures govern the protection of our position from the outset of a customer relationship, for instance in requiring standard terms and conditions or specifically agreed documentation permitting the offset of credit balances against debt obligations and through controls over the integrity, current valuation and, if necessary, realisation of collateral security.

Valuation strategies are established to monitor collateral mitigants to ensure that they will continue to provide the anticipated secure secondary repayment source. Where collateral is subject to high volatility, valuation is frequent; where stable, less so. Market trading activities such as collateralised OTC derivative and SFT's typically carry out daily valuations in support of margining arrangements. In the residential mortgage business, Group policy prescribes re-valuation at intervals of up to three years, or more frequently as the need arises, for example where market conditions are subject to significant change. Residential property collateral values are determined through a combination of professional appraisals, market indices or statistical analysis.

For banking book exposures subject to the standardised approach – covered by eligible guarantees, non-financial collateral, or credit derivatives – the exposure is divided into covered and uncovered portions. The covered portion, which is determined after applying an appropriate 'haircut' for currency and maturity mismatch to the amount of the protection provided, attracts the risk weight applicable to the credit quality step associated with the protection provider, while the uncovered portion attracts the risk weight associated with the credit quality step of the obligor. For trading book exposures fully or partially covered by eligible financial collateral, the value of the exposure is adjusted under the Financial Collateral Comprehensive Method using supervisory volatility adjustments, including those arising from currency mismatch, which are determined by the specific type of collateral (and, in the case of eligible debt securities, their credit quality) and

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Pillar 3 Disclosures at 31 December 2013 (continued)

its liquidation period. The adjusted exposure value is subject to the risk weight associated with the credit quality step of the obligor.

Collateral arrangements

It is our policy to revalue all traded transactions and associated collateral positions on a daily basis. An independent Collateral Management function manages the collateral process including pledging and receiving collateral, investigating disputes and non-receipts.

Eligible collateral types are controlled under a policy to ensure price transparency, price stability, liquidity, enforceability, independence, reusability and eligibility for regulatory purposes. A valuation ‘haircut’ policy reflects the fact that collateral may fall in value between the date the collateral was called and the date of liquidation or enforcement.

Table 14 : Exposure value under the Standardised Approach covered by collateral classified by type of assets and collateral at 31 December 2013 and 2012

	31 December 2013		31 December 2012	
	Eligible financial collateral THBm	Guarantee and credit derivatives THBm	Eligible financial collateral THBm	Guarantee and credit derivatives THBm
Performing claims				
Claims on sovereigns and central banks, and MDBs	12,200	-	41,062	-
Claims on financial institutions, PSEs treated as claims on financial institutions, and securities firms	49,634	-	34,637	-
Claims on corporate, PSEs treated as claims on corporate	255	8,409	1,924	4,417
Non-performing claims	1	157	2	57
Total	62,090	8,566	77,625	4,474

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 marked-to-market. Non-trading portfolios include 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.

We apply similar risk management policies and measurement techniques to both trading and non-trading portfolios. Our objective 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.

The management of market risk is undertaken mainly in Global Markets using risk limits approved by the GMB. Limits are set for portfolios, products and risk types. Market liquidity is an important factor taken into account when setting limits.

Global Risk, an independent unit, is responsible for our market risk management policies and measurement techniques. The Treasury Administration Department ('TAD'), an independent unit from Global Markets (risk taking unit), is responsible for measuring market risk exposures in accordance with the policies defined by Global Risk, and for monitoring and reporting exposures against the prescribed limits on a daily basis.

Each operating entity is required to assess the market risks arising on each product in its business and to transfer these risks to either its local Global Markets unit for management, or to separate books managed under the supervision of the local Asset and Liability Management Committee ('ALCO'). The aim is to ensure that all market risks are consolidated within operations which have the necessary skills, tools, management and governance to manage such risks professionally.

The Bank uses a range of tools to monitor and limit market risk exposures. These include sensitivity analysis, VaR and stress testing.

Sensitivity analysis

Sensitivity measures are used to monitor the market risk positions within each risk type, for example, present value of a basis point movement in interest rates, for interest rate risk. Sensitivity limits are set for portfolios, products and risk types, with the depth of the market being one of the principal factors in determining the level of limits set.

Value at risk

VaR is a technique that estimates the potential losses on risk positions in the trading portfolio as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence.

The VaR model used by the Bank is based on predominantly historical simulation. This model derives realistic future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and factors including interest and foreign exchange rates. The model also incorporates the effect of option features embedded in the underlying exposures.

The historical simulation models used incorporate the following features:

- potential market movements are calculated with reference to data from the past two years;
- historical market rates and prices are calculated with reference to foreign exchange and interest rates, commodity prices, equity prices and the associated volatilities; and
- VaR is calculated to a 99 percent confidence level and use a one-day holding period.

TAD is responsible for preparing the VaR report and submitting it to local senior management for their consideration on a daily basis. If there are exceptions, the exception report has to be sent to local senior management and also the regional market risk unit.

We validate the accuracy of our VaR model by back-testing the actual daily profit and loss results, adjusted to remove non-modeled items such as fees and commissions, against the corresponding VaR numbers. The back-testing is performed by TAD on a daily basis.

We expect on the average to see losses in excess of VaR for 1 percent of the time over a one-year period. Comparing this to the actual number of excesses over this period can therefore be used to gauge how well the model is performing.

Although a valuable guide to risk, VaR should always be viewed in the context of its limitations, for example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a holding period assumes that all positions can be liquidated or the risk offset during that period. This may not fully reflect the market risk arising at times of severe illiquidity, when the holding period may be insufficient to liquidate or hedge all position fully;
- the use of a 99 percent confidence level by definition does not take into account losses that might occur beyond this level of confidence;
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures; and
- VaR is unlikely to reflect loss potential on exposures that only arise under conditions of significant market movement.

Stress testing

The risk management framework is augmented with stress testing to evaluate the potential impact on portfolio values of more extreme (but nonetheless realistic) events or movements in a set of financial variables. In such abnormal scenarios, losses can be much greater than those predicted by VaR modelling. A set of broad stress scenarios is used, as well as scenarios tailored to specific businesses and geographic areas.

The scenarios applied at portfolio and consolidated levels are as follows:

- single risk factor stress scenarios consider the impact of any single risk factor or set of factors that are unlikely to be captured within the VaR model, such as the break of a currency peg;
- technical scenarios, which consider the largest movement in each risk factor without considering any underlying market correlation;

- hypothetical scenarios, which consider potential macroeconomic events, for example, a mainland China slowdown or the effects of a sovereign debt default, including wider contagion effects;
- historical scenarios, which incorporate historical observations of market movements during previous periods of stress, which would not be captured within VaR, for example, Black Monday 1987 for equities, the 1997 Asian crisis and the 2007 global financial crisis; and
- reverse stress test scenarios, which identify scenarios which are beyond normal business conditions and could result in significant losses due to contagion and systemic implications.

In addition to Group's stress testing scenarios, we also perform the stress testing using the scenarios as specified by the BoT, covering parallel and non-parallel shifts in interest rate yield curves and depreciation and appreciation in major currencies.

Interest rate risk

Interest rate risk arises within the trading portfolios, principally from mismatches, as a result of interest rate changes, between the future yield on assets and their funding cost.

This is measured, where practical, on a daily basis. We use a range of tools to monitor and limit interest rate risk exposures. These include the present value of a basis point movement in interest rates, VaR, stress testing and sensitivity analysis.

Through our management of market risk in non-trading portfolios, we mitigate the effect of prospective interest rate movements which could reduce future net interest income, while balancing the cost of such hedging activities on the current net revenue stream.

Analysis of interest rate risk is complicated by having to make assumptions on embedded optionality within certain product areas such as the incidence of mortgage prepayments.

Foreign exchange risk

Foreign exchange risk arises as a result of movements in the relative value of currencies. In addition to VaR and stress testing, we control the foreign exchange risk within the trading portfolio by limiting the open exposure to individual currencies, and on an aggregate basis.

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Specific issuer risk

Specific issuer (credit spread) risk arises from a change in the value of debt instruments due to a perceived change in the credit quality of the issuer or underlying assets. As well as through VaR and stress testing, we manage the

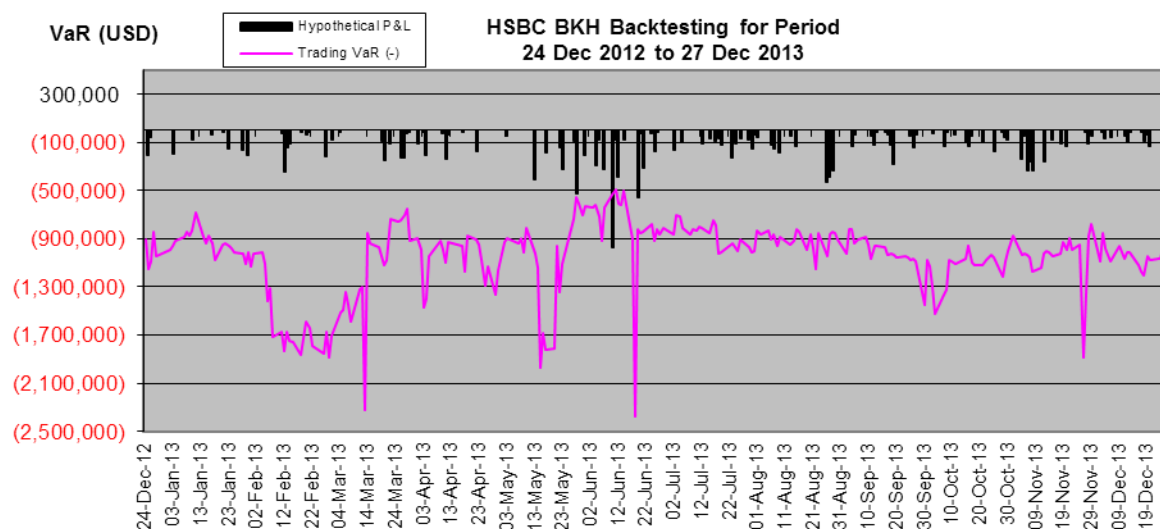
exposure to credit spread movements within the trading portfolios through the use of limits referenced to the sensitivity of the present value of a basis point movement in credit spreads.

Table 15 : Market risk information by Internal Model Approach at 31 December 2013, 30 June 2013 and 31 December 2012

	31 December 2013 THBm	30 June 2013 THBm	31 December 2012 THBm
Interest Rate Risk			
Maximum VaR during the period.....	64	92	108
Average VaR during the period.....	45	72	89
Minimum VaR during the period.....	30	46	66
VaR at the end of the period.....	64	69	105
Foreign Exchange Rate Risk			
Maximum VaR during the period.....	51	37	25
Average VaR during the period.....	14	14	8
Minimum VaR during the period.....	1	1	2
VaR at the end of the period.....	24	13	10
Total Market Risk			
Maximum VaR during the period.....	66	95	111
Average VaR during the period.....	48	73	90
Minimum VaR during the period.....	32	47	69
VaR at the end of the period.....	55	74	105

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 16 : Backtesting result (considering loss side of Hypothetical P&L vs. VaR)



Remark: There was one backtesting exception for the period 24 December 2012 to 27 December 2013.

Interest rate risk in the banking book

Interest rate risk in the banking portfolios arises principally from mismatches between the future yield on assets and their funding cost, as a result of interest rate changes. The prospective change in future net interest income from banking portfolios will be reflected in the current realisable value of these positions, should they be sold or closed prior to maturity.

In order to manage this risk optimally, market risk in banking portfolios is transferred to Global Markets or to separate books managed under the supervision of the local Asset and Liability Management Committee.

The transfer of market risk to books managed by Global Markets or supervised by Asset and Liability Management Committees is usually achieved by a series of internal deals between the business units and these books. When the behavioural characteristics of a product differ from its contractual characteristics, the behavioural characteristics are assessed to determine the true underlying interest rate risk. Behavioural assumptions of a product are

assessed with respect to each local market in which the product is offered. Local Asset and Liability Management Committees are required to regularly monitor all such behavioural assumptions and interest rate risk positions to ensure they comply with interest rate risk limits established by RMM.

We aim, through our management of interest rate risk, to mitigate the effect of prospective interest rate movements which could reduce our future net interest income, balanced against the cost of associated hedging activities, on the current net revenue stream.

Interest rate risk arising within the trading portfolios and banking portfolios is measured, where practical, on a daily basis. HSBC uses a range of tools to monitor and limit interest rate risk exposures. These include the present value of a basis point movement in interest rates, VaR, stress testing and sensitivity analysis.

The table below sets out the effect on future net income of an incremental 100 basis points parallel rise in yield curves during the 12 months.

Table 17 : The effect of changes in interest rates to net interest income in the banking book at 31 December 2013 and 2012

Currency	Effect to net income	
	2013 THBm	2012 THBm
Baht	194	290
US Dollar	(259)	(141)
Euro	(1)	-
Others	(14)	(47)
Total effect of changes in interest rates to net interest income	(80)	102
Percentage of net effect to net future interest income	(3.6%)	3.3%

Equity exposures in the banking book

At 31 December 2013, we had equity investments in the banking book of Baht 220 million (2012: Baht 220 million). These are classified as available-for-sale for accounting purposes and held for the purposes maintained as capital fund under Section 32. There are no realised gains or losses on equity securities recognised in the statements of income during the period. Unrealised gains on revaluation of available-for-sale securities at 31 December

2013 of Baht 20 million (2012: Baht 20 million) were recognised directly in other comprehensive income.

Details of the Bank's accounting policy for available-for-sale equity investments are detailed on pages 12, of the *Annual financial statements and Audit report of Certified Public Accountant 2013*.

Table 18 : Equity exposures in the banking book at 31 December 2013 and 2012

	At 31 December	
	2013 THBm	2012 THBm
Equity exposures		
Book value	200	200
Fair value	220	220
Unrealised gains on revaluation of available-for-sale equities	20	20
Minimum capital requirements for equity exposures on Standardised Approach	-	-

Remark: At 31 December 2013 and 2012, the Bank holds 200,000 units of The ABF Thailand Bond Index Fund with Net Asset Value of Baht 1,100.753 per unit and Baht 1,102.8235 per unit, respectively. It should be noted that the major component of The ABF Thailand Bond Index Fund is Government securities with a risk weight of zero.

Operational risk

Operational risk is defined as ‘the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk’.

Operational risk is relevant to every aspect of our business and covers a wide spectrum of issues, in particular legal, compliance, security and fraud. Losses arising from breaches of regulation and law, unauthorised activities, error, omission, inefficiency, fraud, systems failure or external events all fall within the definition of operational risk.

Objective

The objective of our operational risk management is to manage and control operational risk in a cost-effective manner and within our risk appetite, as defined by GMB.

Organisation and responsibilities

Responsibility for minimising operational risk management lies primarily with HSBC’s management and staff. Each regional, global business, country, business unit and functional head is required to maintain oversight over operational risk and internal control, covering all businesses and operational activities for which they are responsible.

The Group Operational Risk function and the Operational Risk Management Framework (‘ORMF’) assist business management in discharging their responsibility.

The ORMF defines minimum standards and processes, and the governance structure for operational risk and internal control across the Group. Inherent to the ORMF is a ‘Three lines of defence’ model to the management of risk. The first line of defence is every employee at HSBC, the second consists of the Global Functions and the third is Internal Audit.

Measurement and monitoring

We have codified our ORMF in a high level standard, supplemented by detailed policies. These policies explain our approach to identifying, assessing, monitoring and controlling operational risk and give guidance on mitigating action to be taken when weaknesses are identified.

Business managers are responsible for maintaining an acceptable level of internal control, commensurate with the scale and

nature of operations. They are responsible for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. The ORMF helps managers to fulfil these responsibilities by defining a standard risk assessment methodology and providing a tool for the systematic reporting of operational loss data.

Operational risk and control assessment approach

Operational risk and control assessments are performed by individual business units and functions. The risk and control assessment process is designed to provide business areas and functions with a forward-looking view of operational risks, an assessment of the effectiveness of controls, and a tracking mechanism for action plans so that they can proactively manage operational risks within acceptable levels. Risk and control assessments are reviewed and updated at least annually.

Appropriate means of mitigation and controls are considered. These include:

- making specific changes to strengthen the internal control environment;
- investigating whether cost-effective insurance cover is available to mitigate the risk; and
- other means of protecting us from loss.

Recording

We use a centralised database to record the results of our operational risk management process. Operational risk and control assessments are input and maintained by business units. Business management and Business Risk and Control Managers monitor and follow up the progress of documented action plans.

Operational risk loss reporting

To ensure that operational risk losses are consistently reported and monitored at Group level, all Group companies are required to report individual losses when the net loss is expected to exceed US\$10,000 and to aggregate all other operational risk losses under US\$10,000. Losses are entered into the Operational Risk IT system and are reported to the Group Operational Risk function on a quarterly basis.

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Glossary

Abbreviation	Brief description
A	
ALCO	Asset and Liability Management Committee
B	
Bank	The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
BCBS	The Basel Committee on Banking Supervision
BoT	The Bank of Thailand
C	
CEO	Chief Executive Officer
CSA	Credit Support Annex
E	
EAD	Exposure at Default
ECAI	External Credit Assessment Institution, such as Moody's Investors Services, Standard & Poor's Ratings Service, Fitch Ratings or TRIS Rating
G	
GCRO	Group Chief Risk Officer
GMB	Group Management Board
Group	HSBC Holdings together with its subsidiary undertakings
GRC	Group Risk Committee
H	
HSBC	HSBC Holdings together with its subsidiary undertakings
I	
ICAAP	Internal Capital Adequacy Assessment Process
IMM	Internal Model Method
IRB	Internal Ratings-Based
IRRBB	Interest Rate Risk in the Banking Book
ISDA	International Swaps and Derivatives Association
L	
LGD	Loss Given Default
M	
MDB	Multilateral Development Bank
O	
ORMF	Operational Risk Management Framework
OTC	Over-the-Counter
P	
PD	Probability of Default
PSE	Public Sector Entities
R	
RMC	Risk Management Committee
RMM	Risk Management Meeting of the Group Management Board
RWA	Risk-Weighted Asset
S	
SA	Standardised Approach
SFT	Securities Financing Transactions
T	
TAD	Treasury Administration Department
V	
VaR	Value at Risk

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Glossary (continued)

Term	Definition
A	
Available-for-sale ('AFS') financial assets	Those non-derivative financial assets that are designated as available-for-sale or are not classified as a) loans and receivables b) held-to-maturity investments or c) financial assets at fair value through profit or loss.
B	
Back-testing	A statistical technique used to monitor and assess the accuracy of a model, and how that model would have performed had it been applied in the past.
Basel II	The capital adequacy framework issued by the Basel Committee on Banking Supervision in June 2006 in the form of the 'International Convergence of Capital Measurement and Capital Standards'.
C	
Commercial real estate	Any real estate, comprising buildings or land, intended to generate a profit, either from capital gain or rental income.
Counterparty credit risk	Counterparty credit risk is the risk that the counterparty to a transaction may default before completing the satisfactory settlement of the transaction.
Credit default swap ('CDS')	A derivative contract whereby a buyer pays a fee to a seller in return for receiving a payment in the event of a defined credit event (e.g. bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency) on an underlying obligation (which may or may not be held by the buyer).
Credit quality step	A step in the Bank of Thailand credit quality assessment scale which is based on the credit ratings of ECAs. It is used to assign risk weights under the standardised approach.
Credit risk	Risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises mainly from direct lending and trade finance, but also from products such as guarantees, derivatives and debt securities.
Credit risk mitigation	A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantees and credit protection.
Credit Support Annex ('CSA')	A legal document that regulates credit support (collateral) for OTC derivative transactions between two parties.
E	
Exposure	A claim, contingent claim or position which carries a risk of financial loss.
Exposure at default ('EAD')	The amount expected to be outstanding after any credit risk mitigation, if and when the counterparty defaults. EAD reflects drawn balances as well as allowance for undrawn amounts of commitments and contingent exposures.
F	
Fair value	Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
G	
Global Markets	HSBC's treasury and capital markets services in Global Banking and Markets.
Group	HSBC Holdings together with its subsidiary undertakings.

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Glossary (continued)

Term	Definition
H	
Haircut	With respect to credit risk mitigation, a downgrade adjustment to collateral value to reflect any currency or maturity mismatches between the credit risk mitigant and the underlying exposure to which it is being applied. Also a valuation adjustment to reflect any fall in value between the date the collateral was called and the date of liquidation or enforcement.
Held-to-maturity	An accounting classification for investments acquired with the intention and ability of being held until they mature.
I	
Impairment allowances	Management's best estimate of losses incurred in the loan portfolios at the balance sheet date.
Internal Capital Adequacy Assessment Process ('ICAAP')	The Bank's own assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.
Internal Model Method ('IMM')	One of three approaches defined by Basel II to determine exposure values for counterparty credit risk.
Internal ratings-based ('IRB')	A method of calculating credit risk capital requirements using internal estimates of risk parameters.
ISDA master agreement	Standardised contract developed by ISDA used as an umbrella under which bilateral derivatives contracts are entered into.
L	
Liquidity risk	The risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.
M	
Market risk	The risk that movements in market risk factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices will reduce income or portfolio values.
N	
Net interest income	The amount of interest received or receivable on assets net of interest paid or payable on liabilities.
O	
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risk.
Over-the-counter ('OTC')	A bilateral transaction (e.g. derivatives) that is not exchange traded and that is valued using valuation models.
R	
Regulatory capital	The capital which the Bank holds, determined in accordance with rules established by the Bank of Thailand.
Residual maturity	The period outstanding from the reporting date to the maturity or end date of an exposure.
Risk appetite	The aggregate level and types of risk a firm is willing to assume within its risk capacity to achieve its strategic objectives and business plan.
Risk-weighted assets ('RWA's')	Calculated by assigning a degree of risk expressed as a percentage (risk weight) to an exposure value in accordance with the applicable Standardised or IRB approach rules.

Term	Definition
S	
Specific issuer risk	Specific issuer (credit spread) risk arises from a change in the value of debt instruments due to a perceived change in the credit quality of the issuer or underlying assets.
Standardised approach ('SA')	<p>In relation to credit risk, a method for calculating credit risk capital requirements using ECAI ratings and supervisory risk weights.</p> <p>In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.</p>
V	
Value at risk ('VaR')	A measure of the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence.