HSBC
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2013

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Interim Pillar 3 Disclosures at 30 June 2013

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Introduction

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch calculates capital according to the announcement of the Bank of Thailand ('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 Standards'. The supervisory objectives are to strengthen the regulatory capital framework to bear potential loss in normal situations as well as in crisis, building on the three pillars of the Basel II framework: 'minimum capital requirements and capital buffer', 'supervisory review' and 'market discipline'. 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 macro-prudential 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 2013

The Interim Pillar 3 Disclosures 2013 are summary narrative descriptions of risk management processes. The disclosures supplement those already made in the Pillar 3 Disclosures 2012 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 of Basel II, capital, particular risk exposures, risk assessment processes and hence the capital adequacy of the institution.

Media and location

The *Interim Pillar 3 Disclosures 2013* on a standalone basis are available on our website: www.hsbc.co.th, whereas the Pillar 3 Disclosures 2012 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

The *Interim Pillar 3 Disclosures 2013* are not required to be externally audited. The document has been appropriately verified internally in accordance with the Group policies.

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

Capital management and allocation

Our approach to capital management is driven by our strategy and organisational requirements, taking into account the regulatory, economic and commercial environment in which we operate. It is our objective to maintain a strong capital base to support the development of our business and to 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.

According to the BoT's notification regarding the definition of capital, intangible assets will be deducted from capital rather than being risk weighted as currently. The full deduction to capital of approximately Baht 3 million will begin on 1 January 2014.

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

Table 1 : Capital Structure at 30 June 2013 and 31 December 2012

	30 June 2013 THBm	31 December 2012 THBm
Assets maintained under Section 32	**12,167**	**12,165**
Sum of net capital for maintenance of assets under Section 32 and net balance of inter-office accounts		
Capital for maintenance of assets under Section 32	11,649	11,649
Net balance of inter-office accounts where the branch is the debtor to the head office and other branches located in other countries, the parent company and subsidiaries of the head office	17,397	15,090
Total	**29,046**	**26,739**
Total Capital Fund	**11,649**	**11,649**

Table 2 : Capital Adequacy at 30 June 2013 and 31 December 2012

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

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

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

	30 June 2013 THBm	31 December 2012 THBm
Standardised approach – specific interest rate risk	8	6
Internal model approach	233	288
Total minimum capital requirement for market risk	**241**	**294**

Remark: Capital requirements for specific interest rate risk at 30 June 2013 and 31 December 2012 arise from the holding of corporate bonds.

Minimum capital requirement for operational risk

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

Capital ratio

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

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

Market risk

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

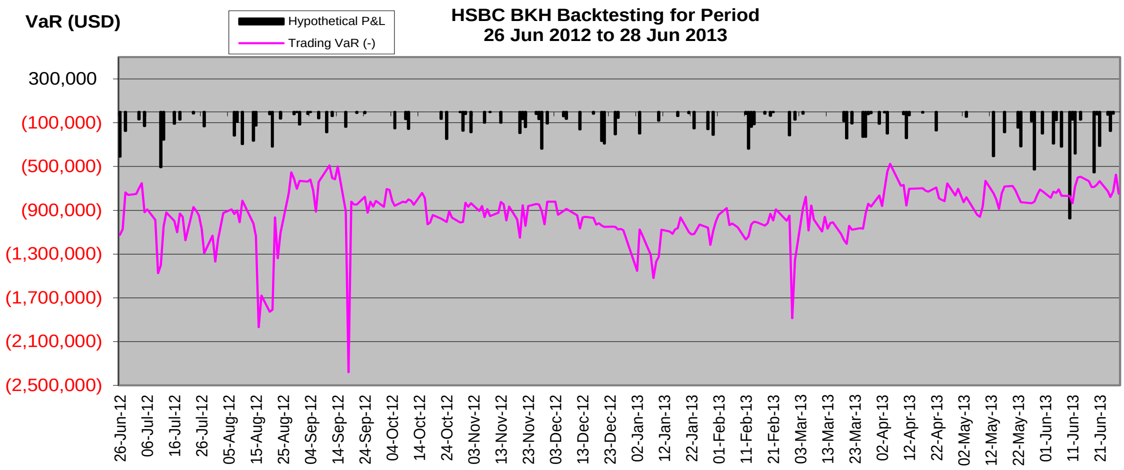
We separate exposures to market risk into trading and non-trading portfolios. Trading portfolios include positions arising from market-making, from position-taking and others designated as mark-to-market. Non-trading portfolios include positions that primarily arise from the interest rate management 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 3 : Market risk information by Internal Model Approach at 30 June 2013 and 31 December 2012

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

Table 4 : Backtesting result (considering loss side of Hypothetical P&L vs. VaR)



Remark: There was one backtesting exception reported for the period of 26 June 2012 to 28 June 2013.