

2010

The Hongkong and Shanghai Banking
Corporation Limited, Bangkok Branch

Interim Pillar 3 Disclosures
as at 30 June 2010



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Introduction

In November 2008, the Bank of Thailand ('the BoT') announced a new capital adequacy framework which based on the International Convergence of Capital Measurement and Capital Standards (commonly known as 'Basel II') by the Basel Committee on Banking Supervision ('BCBS').

The supervisory objectives of Basel II are to promote safety and soundness in the financial system and maintain an appropriate level of capital in the system, enhance competitive equality, constitute a more comprehensive approach to addressing risks, and focus on internationally active banks. Basel II is structured around three 'pillars': pillar 1, 'minimum capital requirements', pillar 2, 'supervisory review' and pillar 3, 'market discipline'.

Interim Pillar 3 disclosures 2010

The Interim Pillar 3 Disclosures 2010 are summary narrative descriptions of the risk management processes of The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch ('the Bank'). The disclosures supplement those already made in the Pillar 3 Disclosures 2009 for those risks covered by the disclosure requirements of the BoT.

Pillar 3 complements the minimum capital requirements and the supervisory review process. Its aim is to encourage market discipline by developing a set of disclosure requirements which will 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 2010* of the Bank on a standalone basis are available on the Bank's website: www.hsbc.co.th, whereas the Pillar 3 Disclosures of HSBC Holdings 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 2010* have been appropriately verified internally but have not been audited by the external auditors.

Scope of Basel II permissions

Credit risk

With effect from 31 December 2008, with the BoT's approval, the Bank has adopted the standardised approach for credit risk.

Market risk

The Bank has obtained an 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

The Bank has adopted the standardised approach in determining its operational risk capital requirements.

Capital

Capital management and allocation

HSBC's capital management approach is driven by its strategy and organisational requirements, taking into account the regulatory, economic and commercial environment in which it operates. It is HSBC's objective to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. The Group's policy is underpinned by the Capital Management Framework which enables HSBC to manage its capital in a consistent and aligned manner. The Capital Management Framework, which has been approved by the Group Management Board, incorporates a number of different capital measures and includes market capitalisation, invested capital, economic capital and regulatory capital. HSBC's strategy is to allocate capital to businesses based on their economic profit generation and, within this process, regulatory and economic capital requirements and the cost of capital are key factors.

As at 30 June 2010 and 31 December 2009, the Bank has an allocated and registered capital fund with the BoT of Baht 10,349 million. The detail can be summarised as follows:

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Table 1 : The Bank's Capital Structure as at 30 June 2010 and 31 December 2009

	30 June 2010 THBm	31 December 2009 THBm
Assets maintained under Section 32	<u>10,907</u>	<u>10,891</u>
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	10,349	10,349
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	<u>12,427</u>	<u>13,869</u>
Total	<u>22,776</u>	<u>24,218</u>
Total Capital Fund	<u>10,349</u>	<u>10,349</u>

Table 2 : The Bank's Capital Adequacy as at 30 June 2010 and 31 December 2009

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

	30 June 2010 THBm	31 December 2009 THBm
Performing claims		
Claims on sovereigns and central banks, and multilateral development banks (MDBs)	7	4
Claims on financial institutions, non-central government public sector entities (PSEs) treated as claims on financial institutions, and securities firms	630	626
Claims on corporates, non-central government public sector entities (PSEs) treated as claims on corporates	3,302	2,727
Claims on retail portfolios	793	833
Claims on housing loans	77	62
Other assets	74	79
Non-performing claims	<u>88</u>	<u>72</u>
Total minimum capital requirement for credit risk	<u>4,971</u>	<u>4,403</u>

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

	30 June 2010 THBm	31 December 2009 THBm
Internal model approach	<u>472</u>	<u>392</u>
Total minimum capital requirement for market risk	<u>472</u>	<u>392</u>

Remark:

- The Bank has approval from the Bank of Thailand to apply a combined approach for market risk. The standardised approach is applied for specific interest rate risk and the internal model approach is applied for interest rate risk and foreign exchange rate risk.
- Since the Bank hold only the THB Government bond and the total amount of the portfolio is less than the Bank's THB liability, the zero percent risk weighted was applied according to the Bank of Thailand regulation. Therefore, there is no capital requirement for the specific interest rate risk under the standardised approach as at 30 June 2010 and 31 December 2009.

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Minimum capital requirement for operational risk

	30 June 2010	31 December 2009
	THBm	THBm
Standardised approach	937	979
Total minimum capital requirement for operational risk	937	979

The Bank's capital ratio

	30 June 2010	31 December 2009
	%	%
Total capital to risk-weighted assets	12.2	13.4

Market risk

Market risk is the risk that movements in market risk factors, including interest rates and foreign exchange rates, will reduce the Bank's income or value of its portfolios.

The Bank separates exposures to market risk into trading and non-trading portfolios. Trading portfolios include those positions arising from market-making, position-taking and other marked-to-market positions so designated.

Non-trading portfolios include positions that arise from the interest rate management of the Bank's retail and commercial banking assets and liabilities, financial investments designated as available-for-sale and held-to-maturity.

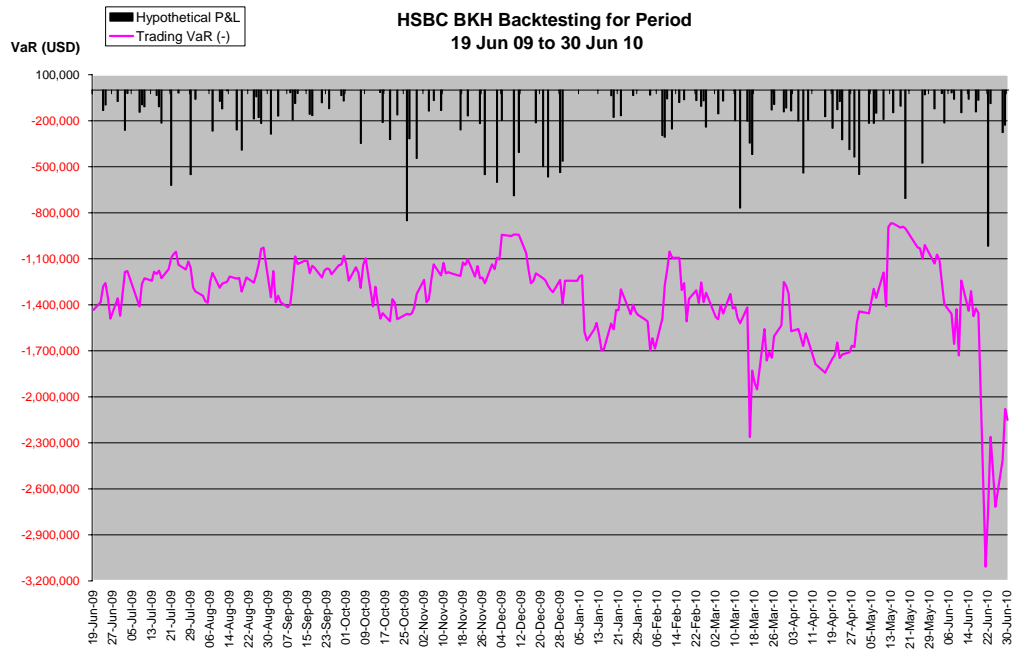
The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with the Group's status as one of the world's largest banking and financial services organisations.

Table 3 : Market risk information by Internal Model Approach as at 30 June 2010 and 31 December 2009

	30 June 2010	31 December 2009
	THBm	THBm
Interest Rate Risk		
Maximum VaR during the period	315	150
Average VaR during the period	156	129
Minimum VaR during the period	89	97
VaR at the end of the period	220	123
Foreign Exchange Rate Risk		
Maximum VaR during the period	44	63
Average VaR during the period	14	28
Minimum VaR during the period	2	2
VaR at the end of the period	3	44
Total Market Risk		
Maximum VaR during the period	319	159
Average VaR during the period	157	131
Minimum VaR during the period	89	99
VaR at the end of the period	221	131

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Table 4 : Backtesting result (Hypothetical P&L vs. VaR)



Remark:
 There was no Backtest exception reported for the preceding 250 business days.