HSBC

The world's local bank

2011

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Interim Pillar 3 Disclosures
as at 30 June 2011

Contents

Introduction

In November 2008, the Bank of Thailand ('the BoT') announced a capital adequacy framework based on the International Convergence of Capital Measurement and Capital Standards (commonly known as 'Basel II') issued 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 2011

The Interim Pillar 3 Disclosures 2011 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 2010 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 2011* 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 2011* 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

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 is underpinned by the 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, 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.

As at 30 June 2011 and 31 December 2010, the Bank has an allocated and registered capital fund with the BoT of Baht 10,349 million. The detail can be summarised as follows:

Table 1 : The Bank's Capital Structure as at 30 June 2011 and 31 December 2010

	30 June 2011 THBm	31 December 2010 THBm
Assets maintained under Section 32	**10,874**	**10,855**
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	16,700	18,508
Total	**27,049**	**28,857**
Total Capital Fund	**10,349**	**10,349**

Table 2 : The Bank's Capital Adequacy as at 30 June 2011 and 31 December 2010

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

	30 June 2011 THBm	31 December 2010 THBm
Performing claims		
Claims on sovereigns and central banks, and multilateral development banks (MDBs)	14	20
Claims on financial institutions, non-central government public sector entities (PSEs) treated as claims on financial institutions, and securities firms	580	764
Claims on corporates, non-central government public sector entities (PSEs) treated as claims on corporates	3,751	3,477
Claims on retail portfolios	872	840
Claims on housing loans	90	86
Other assets	79	67
Non-performing claims	38	60
Total minimum capital requirement for credit risk	**5,424**	**5,314**

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

	30 June 2011 THBm	31 December 2010 THBm
Internal model approach	229	244
Total minimum capital requirement for market risk	**229**	**244**

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 THB Government bonds and the total amount of the portfolio is less than the Bank's THB liability, a zero percent risk weight was applied according to the Bank of Thailand regulations. Therefore, there is no capital requirement for the specific interest rate risk under the standardised approach as at 30 June 2011 and 31 December 2010.*

Minimum capital requirement for operational risk

	30 June 2011 THBm	31 December 2010 THBm
Standardised approach	931	935
Total minimum capital requirement for operational risk	**931**	**935**

The Bank's capital ratio

	30 June 2011 %	31 December 2010 %
Total capital to risk-weighted assets	**11.8**	**12.0**

Note: The minimum regulatory capital ratio for a foreign branch is 7.5%

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 the Bank's income or the value of its portfolios.

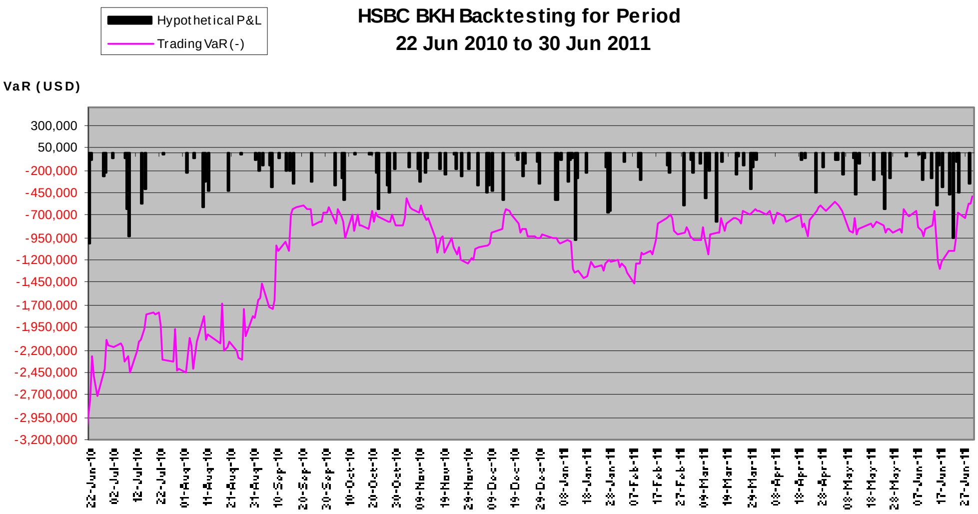
The Bank separates exposures to market risk into trading and non-trading portfolios. Trading portfolios include positions arising from market-making, position-taking and others designated as mark-to-market. Non-trading portfolios include positions that arise from the interest rate management of the Bank's 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 2011 and 31 December 2010

	30 June 2011 THBm	31 December 2010 THBm
Interest Rate Risk		
Maximum VaR during the period	124	113
Average VaR during the period	75	83
Minimum VaR during the period	45	57
VaR at the end of the period	45	89
Foreign Exchange Rate Risk		
Maximum VaR during the period	30	26
Average VaR during the period	15	12
Minimum VaR during the period	3	5
VaR at the end of the period	9	23
Total Market Risk		
Maximum VaR during the period	127	118
Average VaR during the period	76	81
Minimum VaR during the period	47	50
VaR at the end of the period	47	87

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



Remark:
There were no backtesting exception reported for the preceding 250 business days.