

2012

The Hongkong and Shanghai Banking
Corporation Limited, Bangkok Branch

Interim Pillar 3 Disclosures at 30 June 2012

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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 ('the BoT') regarding 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 2012

The Interim Pillar 3 Disclosures 2012 are summary narrative descriptions of the risk management processes of us. The disclosures supplement those already made in the Pillar 3 Disclosures 2011 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. Ours 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 2012* on a standalone basis are available on our website: www.hsbc.co.th, whereas the Pillar 3 Disclosures 2011 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 2012* have been appropriately verified internally but have not been audited by the external auditors.

Scope of Basel II 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.

At 30 June 2012 and 31 December 2011, we have an allocated and registered capital fund with the BoT of Baht 11,649 million. The detail can be summarised as follows:

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Table 1 : Capital Structure at 30 June 2012 and 31 December 2011

	30 June 2012 THBm	31 December 2011 THBm
Assets maintained under Section 32	<u>12,130</u>	<u>12,116</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	11,649	11,649
Net balance of inter-office accounts where we are the debtor to the head office and other branches located in other countries, the parent company and subsidiaries of the head office	<u>10,625</u>	<u>14,032</u>
Total	<u>22,274</u>	<u>25,681</u>
Total Capital Fund	<u>11,649</u>	<u>11,649</u>

Table 2 : Capital Adequacy at 30 June 2012 and 31 December 2011

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

	30 June 2012 THBm	31 December 2011 THBm
Performing claims		
Claims on sovereigns and central banks, and multilateral development banks (MDBs)	24	22
Claims on financial institutions, non-central government public sector entities (PSEs) treated as claims on financial institutions, and securities firms	835	762
Claims on corporates, non-central government public sector entities (PSEs) treated as claims on corporates	4,005	3,878
Claims on retail portfolios	11	925
Claims on housing loans	27	93
Other assets	36	70
Non-performing claims	<u>8</u>	<u>39</u>
Total minimum capital requirement for credit risk	<u>4,946</u>	<u>5,789</u>

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

	30 June 2012 THBm	31 December 2011 THBm
Standardised approach – specific interest rate risk	4	-
Internal model approach	<u>375</u>	<u>248</u>
Total minimum capital requirement for market risk	<u>379</u>	<u>248</u>

Remark:

- Capital requirements for specific interest rate risk at 30 June 2012 arise from the holding of corporate bonds. Since we held only THB Government bonds at 31 December 2011 and the total amount of the portfolio was less than our THB liability, a zero percent risk weight was applied according to the Bank of Thailand regulations. Therefore, there was no capital requirement for the specific interest rate risk under the standardised approach at 31 December 2011.

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Minimum capital requirement for operational risk

	30 June 2012	31 December 2011
	THBm	THBm
Standardised approach	948	926
Total minimum capital requirement for operational risk	948	926

Capital ratio

	30 June 2012	31 December 2011
	%	%
Total capital to risk-weighted assets	13.9	12.6

Note: The minimum regulatory capital ratio for a foreign branch is 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, position-taking and others designated as mark-to-market. Non-trading

portfolios include positions that primarily arise from the interest rate management of our assets and liabilities, financial investments designated as available-for-sale and held-to-maturity.

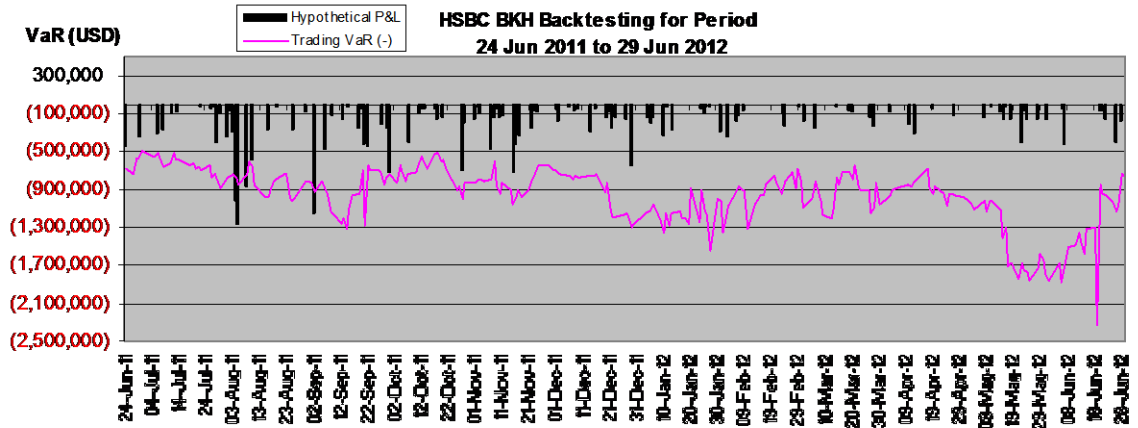
The objective of our market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with the Group's status as one of the world's largest banking and financial services organisations.

Table 3 : Market risk information by Internal Model Approach at 30 June 2012 and 31 December 2011

	30 June 2012	31 December 2011
	THBm	THBm
Interest Rate Risk		
Maximum VaR during the period	226	127
Average VaR during the period	123	82
Minimum VaR during the period	70	51
VaR at the end of the period	73	126
Foreign Exchange Rate Risk		
Maximum VaR during the period	41	34
Average VaR during the period	12	14
Minimum VaR during the period	2	4
VaR at the end of the period	16	5
Total Market Risk		
Maximum VaR during the period	234	129
Average VaR during the period	125	83
Minimum VaR during the period	68	52
VaR at the end of the period	77	126

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



Remark: There were 4 backtesting exceptions reported for the period of 24 June 2011 to 29 June 2012.