

**The Hongkong and Shanghai Banking Corporation Limited**  
**Bangkok Branch**

Annual financial statements  
and

Audit report of Certified Public Accountant

For the years ended  
31 December 2010 and 2009



**KPMG Phoomchai Audit Ltd.**

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## **Audit report of Certified Public Accountant**

### **To the Board of Directors of The Hongkong and Shanghai Banking Corporation Limited**

I have audited the accompanying balance sheet of The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch ("the Branch") as at 31 December 2010 and the related statements of income, changes in equity of head office and other Branches abroad and cash flows for the year then ended. The Branch is a segment of The Hongkong and Shanghai Banking Corporation Limited and is not a separately incorporated legal entity. The accompanying financial statements have been prepared from the records of the Branch and reflect only transactions recorded locally. The Branch's management is responsible for the correctness and completeness of information presented in these financial statements. My responsibility is to express an opinion on these financial statements based on my audit. The financial statements of The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch for the year ended 31 December 2009 were audited by another auditor whose report dated 18 February 2009 expressed an unqualified opinion on those statements.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the assets used in, and liabilities arising out of The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch's operations in Thailand as at 31 December 2010, and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting principles.

*Waiyawat K.*

(Waiyawat Kosamarnchaiyakij)  
Certified Public Accountant  
Registration No. 6333

KPMG Phoomchai Audit Ltd.  
Bangkok  
14 February 2011

# The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

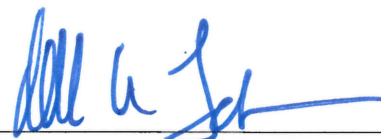
## Balance sheets

As at 31 December 2010 and 2009


Assets	Note	2010	2009
		<i>(in Baht)</i>	
Cash		96,095,628	137,189,490
Interbank and money market items	5		
Domestic items			
Interest bearing		102,692,405,279	74,524,932,603
Non-interest bearing		821,846,513	543,288,126
Foreign items			
Non-interest bearing		35,368,930	46,585,702
<b>Total interbank and money market items</b>		<b>103,549,620,722</b>	<b>75,114,806,431</b>
Investments	6		
Current investments, net		18,436,356,414	14,135,567,346
Long-term investments, net		4,630,694,004	12,144,055,869
<b>Total investments, net</b>		<b>23,067,050,418</b>	<b>26,279,623,215</b>
Loans and accrued interest receivable	7		
Loans		46,155,150,070	45,643,279,257
Accrued interest receivable		171,231,223	177,857,510
<b>Total loans and accrued interest receivable</b>		<b>46,326,381,293</b>	<b>45,821,136,767</b>
<i>Less</i> : allowance for doubtful accounts	8	(1,585,718,119)	(1,811,238,987)
<b>Total loans and accrued interest receivable, net</b>		<b>44,740,663,174</b>	<b>44,009,897,780</b>
Customer liabilities under acceptances		28,062,576	27,310,000
Customer liabilities under collateral		8,017,523,057	4,544,350,096
Derivative assets		31,953,596,501	26,318,697,431
Equipment, net	9	68,537,618	72,870,029
Leasehold right for land and building, net	10	524,370,328	559,565,655
Deferred tax assets	11	140,191,955	124,249,091
Other assets	12	2,354,460,043	1,527,904,132
<b>Total assets</b>		<b>214,540,172,020</b>	<b>178,716,463,350</b>



**Neeranuch Upaphattavanij**  
Chief Financial Officer  
Thailand



**Matthew Lobner**  
Chief Executive Officer  
Thailand



**Pornthip Junpiti**  
Vice President Regulatory Reporting  
Thailand

The accompanying notes are an integral part of these financial statements.

# The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

## Balance sheets

As at 31 December 2010 and 2009

### Liabilities and equity of head office and other branches abroad

	Note	2010	2009
		(in Baht)	
<b>Deposits</b>	<b>13</b>		
Deposits in Baht		55,444,024,722	62,912,988,830
Deposits in foreign currencies		14,677,347,370	10,988,806,746
<b>Total deposits</b>		<b>70,121,372,092</b>	<b>73,901,795,576</b>
Interbank and money market items	<b>14</b>		
Domestic items			
Interest bearing		31,185,991,717	19,989,638,378
Non-interest bearing		104,036,250	47,704,766
Foreign items			
Interest bearing		1,856,624,516	1,046,131,650
Non-interest bearing		5,146,455,237	3,323,271,480
<b>Total interbank and money market items</b>		<b>38,293,107,720</b>	<b>24,406,746,274</b>
Borrowings	<b>15</b>	28,206,066,755	21,631,962,976
Liabilities payable on demand		2,445,819,203	1,469,303,512
Bank liabilities under acceptances		28,062,576	27,310,000
Bank liabilities under collateral		8,017,523,057	4,544,350,096
Derivative liabilities		33,287,741,071	25,224,633,789
Employee benefit obligations	<b>16</b>	128,711,160	-
Other liabilities	<b>17</b>	3,408,911,861	2,114,338,373
<b>Total liabilities</b>		<b>183,937,315,495</b>	<b>153,320,440,596</b>
<b>Equity of head office and other branches abroad</b>			
Funds remitted into Thailand and reserved for maintaining assets under Section 32 of the Financial Institutions Business Act, B.E. 2551	<b>18</b>	10,348,604,820	10,348,604,820
Retained earnings		2,113,357,688	1,264,492,256
Unrealised losses on revaluation of securities, net	<b>6</b>	(67,604,854)	(46,818,530)
Other reserves		57,632,619	49,530,945
Balance of inter-office accounts with head office and other branches abroad	<b>22</b>	18,150,866,252	13,780,213,263
<b>Total equity of head office and other branches abroad</b>		<b>30,602,856,525</b>	<b>25,396,022,754</b>
<b>Total liabilities and equity of head office and other branches abroad</b>		<b>214,540,172,020</b>	<b>178,716,463,350</b>
Off balance sheet items - Contingencies and commitments	<b>19, 22</b>		
Avals to bills and guarantees of loans		273,580,324	532,555,539
Liabilities under unmatured import bills		1,701,605,362	919,835,024
Letters of credit		1,977,203,358	1,353,280,048
Other contingencies and commitments		2,807,434,866,692	2,047,337,470,264

The accompanying notes are an integral part of these financial statements.

# The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

## Statements of income

For the years ended 31 December 2010 and 2009

	Note	2010	2009
		(in Baht)	
<b>Interest income</b>	22		
Loans		2,487,075,667	2,919,313,276
Interbank and money market items		1,463,300,807	985,781,811
Investments		533,596,074	536,614,067
<b>Total interest income</b>		<b>4,483,972,548</b>	<b>4,441,709,154</b>
<b>Interest expenses</b>	22		
Deposits		283,446,420	407,291,986
Interbank and money market items		706,701,949	540,640,708
Borrowings		325,519,400	374,999,386
<b>Total interest expenses</b>		<b>1,315,667,769</b>	<b>1,322,932,080</b>
<b>Net interest income</b>		<b>3,168,304,779</b>	<b>3,118,777,074</b>
Bad debt and doubtful accounts		46,255,656	1,098,540,790
<b>Net interest income after bad debt and doubtful accounts</b>		<b>3,122,049,123</b>	<b>2,020,236,284</b>
<b>Non-interest income</b>	22		
Gains (losses) on investments		146,514,967	(97,681,375)
Fees and services income			
Acceptances, avals and guarantees		110,049,957	109,026,301
Others		1,352,156,059	1,274,280,253
Gains on exchange		1,913,621,174	2,091,381,204
Other income		19,666,682	4,489,621
<b>Total non-interest income</b>		<b>3,542,008,839</b>	<b>3,381,496,004</b>
<b>Non-interest expenses</b>	22		
Personnel expenses	16	1,465,023,839	1,269,624,574
Premises and equipment expenses		444,691,399	405,196,693
Taxes and duties		117,179,547	130,516,265
Fees and services expenses		353,478,369	346,085,484
Other expenses	20	1,583,934,660	1,490,647,965
<b>Total non-interest expenses</b>		<b>3,964,307,814</b>	<b>3,642,070,981</b>
<b>Income before income tax</b>		<b>2,699,750,148</b>	<b>1,759,661,307</b>
Income tax expense	21	850,884,716	600,169,051
<b>Net income</b>		<b>1,848,865,432</b>	<b>1,159,492,256</b>

The accompanying notes are an integral part of these financial statements.

# The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

## Statements of changes in equity of head office and other branches abroad

For the years ended 31 December 2010 and 2009

		Funds remitted into Thailand and reserved for maintaining assets	Retained earnings	Reserves		Balance of inter-office accounts with head office and other branches abroad	Total
	Note			Net unrealised losses on revaluation of securities	Other reserves		
				(in Baht)			
<b>Balance at 1 January 2009</b>		<b>10,348,604,820</b>	<b>3,243,229,981</b>	<b>154,069,014</b>	<b>62,974,703</b>	<b>946,592,920</b>	<b>14,755,471,438</b>
Unrealised losses on revaluation of securities		-	-	(200,887,544)	-	-	(200,887,544)
Other reserves		-	-	-	(13,443,758)	-	(13,443,758)
Net income recognised directly in equity		-	-	(200,887,544)	(13,443,758)	-	(214,331,302)
Net income for the year		-	1,159,492,256	-	-	-	1,159,492,256
Total recognised income		-	1,159,492,256	(200,887,544)	(13,443,758)	-	945,160,954
Profit remittance to head office		-	(3,138,229,981)	-	-	-	(3,138,229,981)
Movement on balance of inter-office accounts with head office and other branches abroad, net		-	-	-	-	12,833,620,343	12,833,620,343
<b>Balance at 31 December 2009</b>		<b>10,348,604,820</b>	<b>1,264,492,256</b>	<b>(46,818,530)</b>	<b>49,530,945</b>	<b>13,780,213,263</b>	<b>25,396,022,754</b>
Unrealised losses on revaluation of securities		-	-	(20,786,324)	-	-	(20,786,324)
Defined benefit plans actuarial losses	16	-	-	-	(5,775,096)	-	(5,775,096)
Other reserves		-	-	-	13,876,770	-	13,876,770
Net income recognised directly in equity		-	-	(20,786,324)	8,101,674	-	(12,684,650)
Net income for the year		-	1,848,865,432	-	-	-	1,848,865,432
Total recognised income		-	1,848,865,432	(20,786,324)	8,101,674	-	1,836,180,782
Profit remittance to head office		-	(1,000,000,000)	-	-	-	(1,000,000,000)
Movement on balance of inter-office accounts with head office and other branches abroad, net		-	-	-	-	4,370,652,989	4,370,652,989
<b>Balance at 31 December 2010</b>		<b>10,348,604,820</b>	<b>2,113,357,688</b>	<b>(67,604,854)</b>	<b>57,632,619</b>	<b>18,150,866,252</b>	<b>30,602,856,525</b>

The accompanying notes are an integral part of these financial statements.

# The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

## Statements of cash flows

For the years ended 31 December 2010 and 2009

	2010	2009
	<i>(in Baht)</i>	
<b><i>Cash flows from operating activities</i></b>		
Income before income tax	2,699,750,148	1,759,661,307
<i>Adjustments to reconcile income before income tax to net cash from operations before changes in operating assets and liabilities:</i>		
Depreciation and amortisation	74,287,347	93,144,663
Bad debt and doubtful accounts	46,255,656	1,098,540,790
(Reversal) of provisions	(13,557,240)	13,698,640
Unrealised (gains) losses on revaluation of trading securities	(40,986,189)	123,350,914
(Gains) losses on disposal of premises and equipment	(498,546)	13,286,095
Unrealised losses on exchange	17,877,116	44,113,548
Unrealised losses on derivative assets and liabilities	2,429,660,791	3,691,474,568
Increase in other reserves	16,566,054	4,567,186
	<u>5,229,355,137</u>	<u>6,841,837,711</u>
Net interest income	(3,168,304,779)	(3,118,777,074)
Proceed from interest income	4,453,616,399	4,616,231,466
Interest paid	(1,302,439,771)	(1,449,120,202)
Income tax paid	<u>(791,939,380)</u>	<u>(883,777,060)</u>
Net cash from operations before changes in operating assets and liabilities	4,420,287,606	6,006,394,841
<i>(Increase) decrease in operating assets</i>		
Interbank and money market items (assets)	(28,371,191,559)	(30,677,915,817)
Trading securities	4,096,216,907	(2,586,939,124)
Loans	(1,255,989,357)	7,346,585,197
Other assets	(856,784,756)	(729,931,107)
<i>Increase (decrease) in operating liabilities</i>		
Deposits	(3,341,636,932)	10,974,264,374
Interbank and money market items (liabilities)	13,905,889,742	3,858,994,882
Borrowings	6,574,103,779	3,350,844,229
Liabilities payable on demand	976,515,691	53,187,058
Employee benefit obligations	128,711,160	-
Other liabilities	<u>1,220,819,713</u>	<u>(1,240,189,970)</u>
<b>Net cash used in operating activities</b>	<u><b>(2,503,058,006)</b></u>	<u><b>(3,644,705,437)</b></u>
<b><i>Cash flows from investing activities</i></b>		
Increase in securities available-for-sale	(874,427,782)	(6,001,362,342)
Purchases of equipment	(34,836,820)	(22,684,199)
Proceeds from sales of premises and equipment	<u>575,757</u>	<u>55,701</u>
<b>Net cash used in investing activities</b>	<u><b>(908,688,845)</b></u>	<u><b>(6,023,990,840)</b></u>

The accompanying notes are an integral part of these financial statements.

# The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

## Statements of cash flows

For the years ended 31 December 2010 and 2009

	2010	2009
	<i>(in Baht)</i>	
<i>Cash flows from financing activities</i>		
Profit remitted to head office during year	(1,000,000,000)	(3,138,229,981)
Increase in net balance of inter-office accounts with head office and other branches abroad	4,370,652,989	12,833,620,343
<b>Net cash provided by financing activities</b>	<b>3,370,652,989</b>	<b>9,695,390,362</b>
 <b>Net (decrease) increase in cash</b>	 <b>(41,093,862)</b>	 <b>26,694,085</b>
Cash at 1 January	137,189,490	110,495,405
<b>Cash at 31 December</b>	<b>96,095,628</b>	<b>137,189,490</b>

The accompanying notes are an integral part of these financial statements.



**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
**Notes to the financial statements**  
**For the years ended 31 December 2010 and 2009**

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**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
**Notes to the financial statements**  
**For the years ended 31 December 2010 and 2009**

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the directors on 14 February 2011.

**1 General information**

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch, “the Branch”, has its registered office at 968 Rama IV Road, Silom, Bangrak, Bangkok 10500.

The Head Office of the Branch is The Hongkong and Shanghai Banking Corporation Limited, which is incorporated in the Hong Kong Special Administrative Region with limited liability.

The principal activities of the Branch are to provide a wide range of banking services to individual and corporate customers.

**2 Basis of preparation of the financial statements**

The financial statements issued for Thai reporting purposes are prepared in the Thai language. This English translation of the financial statements has been prepared for the convenience of readers not conversant with the Thai language.

The financial statements are prepared and presented in Thai Baht. All financial information presented in Thai Baht has been rounded in the notes to the financial statements to the nearest million, unless otherwise stated. They are prepared on the historical cost basis except as stated in the accounting policies.

The financial statements are prepared in accordance with Thai Financial Reporting Standards (“TFRS”) including Thai Accounting Standards (“TAS”) and guidelines promulgated by the Federation of Accounting Professions (“FAP”), applicable rules and the Bank of Thailand (“BoT”) and with generally accepted accounting principles in Thailand.

During 2010, the FAP announced the re-numbering of the following TFRS.

Former no.	Revised no.	Topic
TAS 11	TAS 101	Doubtful Account and Bad Debts
TAS 27	TAS 103	Disclosures in the Financial Statements of Banks and Similar Financial Institution
TAS 34	TAS 104	Accounting for Troubled Debt Restructuring
TAS 40	TAS 105	Accounting for Investment in Debt and Equity Securities
TAS 48	TAS 107	Financial Instruments Disclosure and Presentation

The Branch has adopted the revised Framework for the Preparation and Presentation of Financial Statements (revised 2009), which was issued by the FAP during 2010 and effective on 26 May 2010. The adoption of the revised framework does not have any material impact on the Branch’s financial statements.

**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
**Notes to the financial statements**  
**For the years ended 31 December 2010 and 2009**

On 15 December 2010, the FAP issued the new TFRS, TAS 19 *Employee Benefits*, relevant to the Branch's operations and effective for accounting periods beginning on or after 1 January 2011. As permitted by TAS 19, the Branch early adopted the TAS resulting in a change in the accounting policy for employee benefits in the Branch financial statements for the year ended 31 December 2010. The Branch charged the cumulative past service costs in the statement of income for the year then ended. The effects of the change are disclosed in note 3.

The FAP has issued during 2010 a number of new and revised TFRS which are not currently effective and have not been adopted in the preparation of these financial statements except for TAS 19. These new and revised TFRS are disclosed in note 27.

The preparation of financial statements in conformity with TFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate are revised in any future period affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the notes:

Note 6	Investments
Note 8	Allowance for doubtful accounts
Note 11	Deferred tax
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### **3 Change in accounting policy**

As permitted by TAS 19 *Employee Benefits*, the Branch has early adopted the TAS resulting in a change in the accounting policy for employee benefits in the Branch financial statements for the year ended 31 December 2010.

Under the new policy, the Branch's obligation in respect of employee long-term benefits is recognised in the financial statements based on calculations performed annually by a qualified actuary using the projected unit credit method. Details of the new accounting policy adopted by the Branch are included in note 4 (n) below. Previously, the Branch's obligation in respect of employee long-term benefits was recognised as and when payments were made. The Branch has opted to record the entire amount of this liability as an expense in 2010 in accordance with the transitional provisions of TAS 19. The financial impact of the change on the financial statements for the year ended 31 December 2010 is summarised as follows:

	<i>(in million Baht)</i>
<b>Balance sheet</b>	
Increase in employee benefit obligations	128
<b>Decrease in other reserves</b>	<b>128</b>
<b>Statement of income</b>	
Increase in personnel expenses	120
<b>Decrease in profit for the year</b>	<b>120</b>

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**Notes to the financial statements**  
**For the years ended 31 December 2010 and 2009**

**4 Significant accounting policies**

**(a) Interest income and expense**

Interest income and expense for all interest-bearing financial instruments, except those classified as held for trading or designated at fair value, are recognized in Interest income and Interest expense in the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Branch estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the Branch that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

**(b) Cash**

Cash consists of cash on hand and cash on collection.

**(c) Loans**

Loans represent loans originated by the Branch, which are not intended to be sold in the short term and have not been classified as held for trading. Loans are recognized when cash is advanced to borrowers. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment losses.

**(d) Allowance for doubtful accounts**

The Branch provides an allowance for doubtful accounts equal to the estimated losses that may be incurred in the collection of all receivables. The estimated losses are calculated by discounting expected future cash flows (inclusive of the value of security) using a discount rate, which includes a premium for uncertainty of the cash flows.

Bad debt recoveries are presented net of bad debts and doubtful accounts in the statement of income.

**(e) Restructured loans**

Restructured loans are classified as performing when there is appropriate evidence that the restructured terms can be met. At a minimum, restructured terms involving periodic repayments must be met without exception for a three-payment period before a restructured loan can be reclassified.

**(f) Investments**

Investments in securities are classified as either securities held for trading, available-for-sale securities or held to maturity securities.

Debt securities and marketable equity securities held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognized in the statement of income.

Debt securities that the Branch has a positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are stated at amortised cost less

**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
**Notes to the financial statements**  
**For the years ended 31 December 2010 and 2009**

impairment losses. The difference between the acquisition cost and redemption value of such debt securities is amortised using the effective interest rate method over the period to maturity.

Debt securities and marketable equity securities other than those securities held for trading or intended to be held to maturity, are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognized directly in a separate component of Head Office's equity. The exceptions are impairment losses and foreign exchange gains and losses, which are recognized in the statement of income. When these investments are derecognized, the cumulative gain or loss previously recognized directly in a separate component of Head Office's equity is recognized in the statement of income. Where these investments are interest-bearing, interest calculated using the effective interest method is recognized in the statement of income.

Equity securities which are not marketable are stated at cost less impairment losses.

The fair value of financial instruments classified as held-for-trading and available-for-sale is determined as the quoted bid price at the reporting date.

*Disposal of investments*

On disposal of an investment, the difference between net disposal proceeds and the carrying amount together with the associated cumulative gain or loss that was reported in a separate component of Head Office's equity is recognized in the statement of income.

If the Branch disposes of part of its holding of a particular investment, the deemed cost of the part sold is determined using the weighted average method applied to the carrying value of the total holding of the investment.

**(g) Foreign currency transactions**

Transactions in foreign currencies are translated to Thai Baht at the foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Thai Baht at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognized in the statement of income.

**(h) Equipment**

Equipment is stated at cost less applicable depreciation and impairment losses. Assets are depreciated on a straight-line basis over their estimated useful lives of 3-7 years.

Gain or loss on disposal of equipment is recognized in the statement of income.

**(i) Leasehold right for land and buildings**

Leasehold right for land and buildings and leasehold improvements are stated at cost less amortization and impairment losses. Amortisation is charged to the statement of income on a straight-line basis as follows:

Leasehold right	Over the lease period of 28 years
Leasehold improvement	Between 5 and 8 years

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**(j) *Properties foreclosed***

Properties acquired through foreclosure are recorded at the lower of the net book value of the loan at the time of foreclosure or the latest market value of the properties foreclosed. Gain or loss on disposal of properties foreclosed is recognized on such properties only when sold. Loss on impairment of properties foreclosed is recognized in the statement of income.

**(k) *Financial instruments***

Derivatives are recognized initially at fair value from the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The method of recognizing the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Branch designated certain derivatives as either: (i) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge) or (ii) hedges of highly probable future cash flows attributable to a recognized asset or liability, or a forecast transaction (cash flow hedge). Hedge accounting is applied for derivatives designated as fair value or cash flow hedges, provided certain criteria are met.

***Fair value hedge***

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used shall be amortised to the income statement over the period to maturity.

***Cash flow hedge***

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in a component of Head Office's equity. Any gain or loss relating to an ineffective portion is recognized immediately in the income statement.

Amounts accumulated in Head Office's equity are recycled through the income statement in the periods in which the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in Head Office's equity at that time remains in Head Office's equity until the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in Head Office's equity is immediately transferred to the income statement.

**(l) *Income tax***

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in a separate component of Head Office's equity.

***Current tax***

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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*Deferred tax*

Deferred tax is provided, using the liability method, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(m) *Equity compensation plan***

Where shares of HSBC Holdings Plc are awarded to an employee of the Branch, the cost of shares awarded is amortised over the vesting period from the date the shares are awarded. Shares purchased for such purpose are reported under 'other assets'.

For share options, the compensation expense to be spread over the vesting period is determined by reference to the fair value of the options on grant date, and the impact of any non-market vesting conditions such as option lapses. The compensation expense is recognized on a straight-line basis over the vesting period. Where the Branch is not charged for this by Head Office, the corresponding amount is credited to 'other reserves'.

**(n) *Employee benefits***

The Branch operates post-retirement benefit plans, including defined contribution plan and defined benefit plans.

*Defined contribution plan*

For the defined contribution plan, the Branch pays contributions to provident funds on a voluntary basis, and such amounts are charged to personnel expenses. The Branch has no further payment obligations once the contributions have been paid.

The Branch has established contributory provident funds for their employees. Memberships of the funds are on a voluntary basis. Contributions are made monthly by the employees at rates ranging from 3% to 10% of their basic salaries and by the Branch at 10% of the employees' basic salaries. The provident funds are registered with the Ministry of Finance as juristic entities and are managed by licensed Fund Managers, therefore, they are not included in the balance sheet.

*Defined benefit plans*

For unfunded defined benefit plans, the liability recognised at the balance sheet date is the present value of the defined benefit obligation. The defined benefit obligation is calculated annually by a qualified actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on high quality government bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating to the term of the related pension liability.

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Actuarial gains and losses that arise are recognised and presented in equity of head office and other branches abroad in the period they arise. Past service costs are recognised immediately to the extent that benefits are vested and are otherwise recognised over the average period until benefits are vested on a straight line basis. Current service costs and any past service costs, together with the unwinding of the discount on plan liabilities, are charged to personnel expenses.

*Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

**(o) Provisions**

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation as a result of past events and a reliable estimate can be made of the amount of the obligation.

**(p) Offsetting**

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Branch has a legal, enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis.

**5 Interbank and money market items (assets)**

Interbank and money market items at 31 December 2010 and 2009 consisted of:

	At call	2010 Term	Total (in million Baht)	At call	2009 Term	Total
<b>Domestic</b>						
The Bank of Thailand and Financial Institutions						
Development Fund	433	102,600	103,033	290	71,000	71,290
Commercial banks	389	-	389	253	3,500	3,753
Add: accrued interest receivable	-	92	92	-	25	25
	<u>822</u>	<u>102,692</u>	<u>103,514</u>	<u>543</u>	<u>74,525</u>	<u>75,068</u>
<b>Foreign</b>						
Euro	10	-	10	16	-	16
Other currencies	26	-	26	31	-	31
	<u>36</u>	<u>-</u>	<u>36</u>	<u>47</u>	<u>-</u>	<u>47</u>
<b>Total</b>	<u>858</u>	<u>102,692</u>	<u>103,550</u>	<u>590</u>	<u>74,525</u>	<u>75,115</u>

At 31 December 2010 and 2009, all term interbank and money market items of Baht 102,600 million and Baht 74,500 million, respectively had residual maturities within 1 year.



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**6 Investments**

Investments at 31 December 2010 and 2009 consisted of:

	2010		2009	
	Cost/book value	Market value	Cost/book value	Market value
		(in million Baht)		
<b><i>Current investments</i></b>				
<i>Securities held for trading</i>				
Government and state enterprise securities	2,543	2,585	6,639	6,641
Add: unrealised gains on revaluation of securities	42	-	2	-
<b>Total securities held for trading</b>	<b>2,585</b>	<b>2,585</b>	<b>6,641</b>	<b>6,641</b>
<i>Securities available-for-sale</i>				
Government and state enterprise securities	15,650	15,633	7,265	7,277
Marketable securities - equity shares	200	218	200	218
	15,850	15,851	7,465	7,495
Add: unrealised gains on revaluation of securities	1	-	30	-
<b>Total securities available-for-sale</b>	<b>15,851</b>	<b>15,851</b>	<b>7,495</b>	<b>7,495</b>
<b>Total current investments</b>	<b>18,436</b>	<b>18,436</b>	<b>14,136</b>	<b>14,136</b>
<b><i>Long-term investments</i></b>				
<i>Securities available-for-sale</i>				
Government and state enterprise securities	4,608	4,631	12,119	12,144
Add: unrealised gains on revaluation of securities	23	-	25	-
<b>Total long-term investments</b>	<b>4,631</b>	<b>4,631</b>	<b>12,144</b>	<b>12,144</b>
<b>Total</b>	<b>23,067</b>	<b>23,067</b>	<b>26,280</b>	<b>26,280</b>

At 31 December 2010 and 2009 debt instruments classified by their remaining maturity were as follows:

	2010			
	Maturity Period			
	Within 1 year	1-5 years	Over 5 years	Total
		(in million Baht)		
<b><i>Securities available-for-sale</i></b>				
Government and state enterprise securities	15,650	4,608	-	20,258
Add: unrealised (losses) gains on revaluation of securities	(17)	23	-	6
<b>Total</b>	<b>15,633</b>	<b>4,631</b>	<b>-</b>	<b>20,264</b>
	2009			
	Maturity Period			
	Within 1 year	1-5 years	Over 5 years	Total
		(in million Baht)		
<b><i>Securities available-for-sale</i></b>				
Government and state enterprise securities	7,265	12,119	-	19,384
Add: unrealised gains on revaluation of securities	12	25	-	37
<b>Total</b>	<b>7,277</b>	<b>12,144</b>	<b>-</b>	<b>19,421</b>

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As at 31 December 2010, investments classified as available-for-sale with market value of Baht 10,855 million (2009 : *Baht 10,891 million*) and Baht 3,013 million (2009 : *Baht 1,006 million*) were maintained as capital fund with the Bank of Thailand and under sale and repurchased agreement, respectively.

For the year ended 31 December 2010 the statement of income included gains of Baht 4.01 million (2009: *loss of Baht 1.35 million*) on sales of available-for-sale securities.

Unrealised gains (losses) on revaluation of securities presented in equity of head office and other branches abroad as at 31 December 2010 and 2009 were as follows:

	2010 (in million Baht)	2009
Unrealised gains on revaluation of securities debt instruments	8	37
Unrealised losses on revaluation of securities debt instruments	(87)	(85)
Unrealised gains on revaluation of equity shares	18	18
	<u>(61)</u>	<u>(30)</u>
Less: deferred tax	(7)	(17)
<b>Net</b>	<b><u>(68)</u></b>	<b><u>(47)</u></b>

**7 Loans and accrued interest receivable**

Loans at 31 December 2010 and 2009 were classified as follows:

Classified by type of credit

	2010 (in million Baht)	2009
Overdrafts	287	340
Loans	41,398	35,901
Bills	4,470	4,045
Private repo	-	5,357
	<u>46,155</u>	<u>45,643</u>
Add: accrued interest receivable	171	178
Less: allowance for doubtful accounts	(1,586)	(1,811)
<b>Total</b>	<b><u>44,740</u></b>	<b><u>44,010</u></b>

Classified by residual maturity of contracts

	2010 (in million Baht)	2009
Within 1 year	38,642	37,058
Over 1 year	7,513	8,585
<b>Total</b>	<b><u>46,155</u></b>	<b><u>45,643</u></b>

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Classified by currency and residency of debtors

	Domestic	2010 Foreign	Total	Domestic	2009 Foreign	Total
			(in million Baht)			
Baht	34,731	7	34,738	37,328	1	37,329
US Dollar	10,806	430	11,236	7,906	101	8,007
Other currencies	80	101	181	292	15	307
<b>Total</b>	<b>45,617</b>	<b>538</b>	<b>46,155</b>	<b>45,526</b>	<b>117</b>	<b>45,643</b>

Classified by type of business and loan classification

			2010			
	Pass	Special mention	Substandard	Doubtful	Doubtful of loss	Total
			(in million Baht)			
Agriculture and minerals	720	-	-	-	-	720
Industrial and commercial	18,104	1,494	-	432	722	20,752
Property and construction	1,834	-	-	-	-	1,834
Infrastructure and service	9,629	143	-	-	-	9,772
Home mortgages	1,172	9	2	13	5	1,201
Other	11,344	317	164	3	48	11,876
<b>Total</b>	<b>42,803</b>	<b>1,963</b>	<b>166</b>	<b>448</b>	<b>775</b>	<b>46,155</b>

			2009			
	Pass	Special mention	Substandard	Doubtful	Doubtful of loss	Total
			(in million Baht)			
Agriculture and minerals	714	-	-	-	-	714
Industrial and commercial	13,015	1,993	41	102	859	16,010
Property and construction	1,929	-	-	-	8	1,937
Infrastructure and service	14,154	63	-	-	-	14,217
Home mortgages	867	3	-	11	11	892
Other	11,101	432	339	-	1	11,873
<b>Total</b>	<b>41,780</b>	<b>2,491</b>	<b>380</b>	<b>113</b>	<b>879</b>	<b>45,643</b>

Loans classified by grade

		2010		
	Loans and accrued interest receivable	Amount after net securities	(%) Provision rate as per BoT	Provision as per BoT
		(in million Baht)		
Pass	42,968	39,961	1	398
Special mention	1,969	1,237	2	24
Substandard	166	165	100	165
Doubtful	448	253	100	253
Doubtful of loss	775	350	100	350
<b>Total</b>	<b>46,326</b>	<b>41,966</b>		<b>1,190</b>
Allowance established in excess of BoT minimum requirements				396
<b>Total</b>				<b>1,586</b>

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	2009			
	Loans and accrued interest receivable	Amount after net securities	(%) Provision rate as per BoT	Provision as per BoT
	<i>(in million Baht)</i>			
Pass	41,949	33,280	1	332
Special mention	2,500	2,272	2	45
Substandard	380	378	100	378
Doubtful	113	95	100	95
Doubtful of loss	879	487	100	487
<b>Total</b>	<b>45,821</b>	<b>36,512</b>		<b>1,337</b>
Allowance established in excess of BoT minimum requirements				474
<b>Total</b>				<b>1,811</b>

At 31 December 2010, specific provisions of Baht 1,090 million (2009: Baht 1,147 million) have been provided against the Branch's non-performing loans, being those classified as Substandard, Doubtful and Doubtful of loss.

## 8 Allowance for doubtful accounts

Movements in the allowance for doubtful accounts during the years ended 31 December 2010 and 2009 consisted of:

	2010					
	Pass	Special mention	Substandard	Doubtful	Doubtful of loss	Total
	<i>(in million Baht)</i>					
Balance at beginning of the year	614	50	380	110	657	1,811
Doubtful accounts charge	(219)	(3)	193	263	(188)	46
Bad debts recoveries	-	-	-	-	584	584
Bad debts written off	-	-	-	-	(842)	(842)
Movement in exchange rate	-	-	-	(2)	(11)	(13)
Movement to other grades	62	(8)	(408)	(3)	357	-
<b>Balance at end of the year</b>	<b>457</b>	<b>39</b>	<b>165</b>	<b>368</b>	<b>557</b>	<b>1,586</b>

	2009					
	Pass	Special mention	Substandard	Doubtful	Doubtful of loss	Total
	<i>(in million Baht)</i>					
Balance at beginning of the year	489	342	410	4	391	1,636
Doubtful accounts charge	229	(254)	671	105	348	1,099
Bad debts recoveries	-	-	-	-	427	427
Bad debts written off	-	-	-	-	(1,329)	(1,329)
Movement in exchange rate	-	-	-	(4)	(18)	(22)
Movement to other grades	(104)	(38)	(701)	5	838	-
<b>Balance at end of the year</b>	<b>614</b>	<b>50</b>	<b>380</b>	<b>110</b>	<b>657</b>	<b>1,811</b>

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**9 Equipment**

Changes in equipment during the year ended 31 December 2010 were as follows:

	Beginning balance	Change in cost during the year		Ending balance	Change in depreciation during the year				Book value 31 December 2010
		Additions	Disposals		Beginning balance <i>(in million Baht)</i>	Depreciation	Disposals	Ending balance	
Furniture, fixtures and equipment	604	35	(27)	612	531	39	(27)	543	69
<b>Total</b>	<b>604</b>	<b>35</b>	<b>(27)</b>	<b>612</b>	<b>531</b>	<b>39</b>	<b>(27)</b>	<b>543</b>	<b>69</b>

Changes in equipment during the year ended 31 December 2009 were as follows:

	Beginning balance	Change in cost during the year		Ending balance	Change in depreciation during the year				Book value 31 December 2009
		Additions	Disposals		Beginning balance <i>(in million Baht)</i>	Depreciation	Disposals	Ending balance	
Furniture, fixtures and equipment	601	23	(20)	604	502	47	(18)	531	73
<b>Total</b>	<b>601</b>	<b>23</b>	<b>(20)</b>	<b>604</b>	<b>502</b>	<b>47</b>	<b>(18)</b>	<b>531</b>	<b>73</b>

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**10 Leasehold right for land and buildings**

	2010 (in million Baht)	2009
Leasehold right	909	909
Leasehold improvements	317	317
	<u>1,226</u>	<u>1,226</u>
<i>Less: accumulated amortization</i>	<u>(702)</u>	<u>(666)</u>
<b>Net</b>	<b><u>524</u></b>	<b><u>560</u></b>

**11 Deferred tax**

Deferred tax assets and liabilities are included in the balance sheets as follows:

	2010 (in million Baht)	2009
Deferred tax assets	288	255
Deferred tax liabilities	<u>(148)</u>	<u>(131)</u>
<b>Net</b>	<b><u>140</u></b>	<b><u>124</u></b>

Movements in deferred tax assets and liabilities during the year are as follows:

	At 1 January 2010	<i>Charged/(credited) to</i> Statement of income (note 21)	Equity of Head Office	At 31 December 2010
			(in million Baht)	
<b><i>Deferred tax liabilities</i></b>				
Investments	35	13	(25)	23
Deferred expenses	45	(2)	-	43
Borrowings and financial instruments	51	31	-	82
<b>Total</b>	<b><u>131</u></b>	<b><u>42</u></b>	<b><u>(25)</u></b>	<b><u>148</u></b>
<b><i>Deferred tax assets</i></b>				
Investments	18	-	(15)	3
Allowance for doubtful accounts and provision for contingent liabilities	130	(6)	-	124
Other items	107	52	2	161
<b>Total</b>	<b><u>255</u></b>	<b><u>46</u></b>	<b><u>(13)</u></b>	<b><u>288</u></b>
<b>Net</b>	<b><u>124</u></b>	<b><u>4</u></b>	<b><u>12</u></b>	<b><u>140</u></b>

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	At 1 January 2009	Charged/(credited) to Statement of income (note 21) (in million Baht)	Equity of Head Office	At 31 December 2009
<b><i>Deferred tax liabilities</i></b>				
Investments	109	(38)	(36)	35
Deferred expenses	86	(41)	-	45
Borrowings and financial instruments	56	(5)	-	51
<b>Total</b>	<b>251</b>	<b>(84)</b>	<b>(36)</b>	<b>131</b>
<b><i>Deferred tax assets</i></b>				
Investments	6	(1)	13	18
Allowance for doubtful accounts and provision for contingent liabilities	150	(20)	-	130
Other items	91	20	(4)	107
<b>Total</b>	<b>247</b>	<b>(1)</b>	<b>9</b>	<b>255</b>
<b>Net</b>	<b>(4)</b>	<b>83</b>	<b>45</b>	<b>124</b>

## 12 Other assets

At 31 December 2010 and 2009, other assets consisted of:

	2010 (in million Baht)	2009
Accrued income receivable	129	137
Other receivables	1,966	1,049
Other	259	342
<b>Total</b>	<b>2,354</b>	<b>1,528</b>

## 13 Deposits

Deposits at 31 December 2010 and 2009 were classified as follows:

Classified by type of deposits

	2010 (in million Baht)	2009
Current	4,890	5,851
Saving	51,450	48,517
Term (original maturity)		
- Less than 6 months	11,625	17,513
- More than 6 months but less than 1 year	2,043	1,728
- 1 year and over	113	293
<b>Total</b>	<b>70,121</b>	<b>73,902</b>

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Classified by residual maturity of contracts

	2010 (in million Baht)	2009 (in million Baht)
Within 1 year	70,076	73,829
Over 1 year	45	73
<b>Total</b>	<b>70,121</b>	<b>73,902</b>

Classified by currency and residency of depositors

	Domestic	2010 Foreign	Total (in million Baht)	Domestic	2009 Foreign	Total
Baht	52,974	2,470	55,444	60,687	2,226	62,913
US Dollar	8,638	1,727	10,365	6,924	2,040	8,964
Other currencies	3,252	1,060	4,312	898	1,127	2,025
<b>Total</b>	<b>64,864</b>	<b>5,257</b>	<b>70,121</b>	<b>68,509</b>	<b>5,393</b>	<b>73,902</b>

#### 14 Interbank and money market items (liabilities)

Interbank and money market items at 31 December 2010 and 2009 consisted of:

	At call	2010 Term	Total (in million Baht)	At call	2009 Term	Total
<b>Domestic</b>						
Commercial banks	2	13,900	13,902	2	6,100	6,102
Finance, securities and credit foncier companies	504	2,500	3,004	642	500	1,142
Other financial institutions	422	13,962	14,384	239	12,554	12,793
	<b>928</b>	<b>30,362</b>	<b>31,290</b>	<b>883</b>	<b>19,154</b>	<b>20,037</b>
<b>Foreign</b>						
US Dollar	800	-	800	220	-	220
Other currencies	6,203	-	6,203	4,150	-	4,150
	<b>7,003</b>	<b>-</b>	<b>7,003</b>	<b>4,370</b>	<b>-</b>	<b>4,370</b>
<b>Total</b>	<b>7,931</b>	<b>30,362</b>	<b>38,293</b>	<b>5,253</b>	<b>19,154</b>	<b>24,407</b>

#### 15 Borrowings

	Domestic	2010 Foreign	Total (in million Baht)	Domestic	2009 Foreign	Total
Floating rate notes	644	-	644	3,145	-	3,145
Bills of exchange	27,562	-	27,562	18,487	-	18,487
<b>Total</b>	<b>28,206</b>	<b>-</b>	<b>28,206</b>	<b>21,632</b>	<b>-</b>	<b>21,632</b>

At 31 December 2010, borrowings of Baht 26,645 million and Baht 1,561 million had residual maturities within 1 year and over 1 year, respectively. All borrowings were in Thai Baht with interest rates between 0.5% and 2.0%.



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At 31 December 2009, borrowings of Baht 19,398 million and Baht 2,234 million had residual maturities within 1 year and over 1 year, respectively. All borrowings were in Thai Baht with interest rates between 0.5% and 1.435%.

**16 Employee benefit obligations**

2010  
(in million Baht)

**Balance sheet obligations for:**

Defined benefit obligations

**128**

**Statement of income charge:**

Defined benefit obligations

**120**

The Branch operates following unfunded defined benefit plans for eligible employees in Thailand in accordance with the requirements of the Thai Labour Protection Act B.E 2541 (1998) to provide retirement benefits to employees based on pensionable remuneration and length of service.

*Legal severance payment plan*

Under this plan, employees are entitled to legal severance payment benefits ranging from 30 days to 300 days of final salary upon retirement or involuntary separation before retirement.

*Gratuity plan*

Under this plan, employees are entitled to one month final salary for every five years of completed service upon retirement.

Movement in the present value of the defined benefit obligations:

2010  
(in million Baht)

Defined benefit obligations at 1 January

-

Past service costs

102

Current service costs

13

Interest on obligation

5

Actuarial losses

8

**Defined benefit obligations at 31 December**

**128**

The interest on obligation and current and past service costs are recognised in the following line item in the statement of income:

2010  
(in million Baht)

Non-interest expenses

- Personnel expenses

**120**

Principal actuarial assumptions at 31 December 2010:

Discount rate

3.8

Future average salary increases

1% -10%

Assumptions regarding future mortality are based on published statistics and mortality tables.

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**17 Other liabilities**

At 31 December 2010 and 2009, other liabilities consisted of:

	2010	2009
	<i>(in million Baht)</i>	
Accrued interest payable	98	85
Accrued expenses payable	849	519
Accrued corporate income tax	534	470
Others	1,928	1,040
<b>Total</b>	<b>3,409</b>	<b>2,114</b>

**18 Capital fund**

As at 31 December 2010 and 2009, the capital structure according to Section 32 of the Financial Institutions Business Act, B.E 2551 can be summarized as follow:

	2010	2009
	<i>(in million Baht)</i>	
<b>Assets maintained under Section 32</b>	<b>10,855</b>	<b>10,891</b>
<b>Sum of net capital for maintenance of assets under Section 32 and net balance of inter-office accounts</b>		
Capital for maintenance of assets under Section 32	10,349	10,349
Net balance of inter-office accounts which the branch is the debtor (the creditor) to the head office and other branches located in other countries, the parent company and subsidiaries of the head office	18,508	13,869
<b>Total</b>	<b>28,857</b>	<b>24,218</b>
<b>Total Capital Fund</b>	<b>10,349</b>	<b>10,349</b>
<b>Capital adequacy ratio</b>	<b>11.95%</b>	<b>13.44%</b>

Disclosure of capital maintenance information under the Notification of the Bank of Thailand Re: Public Disclosure of Capital Maintenance for Commercial Banks for the period ended 31 December 2010 will be located in our website : [www.hsbc.co.th](http://www.hsbc.co.th) within four months of the period end.

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**19 Contingencies and commitments**

At 31 December 2010 and 2009, contingencies and commitments were as follows:

	2010			2009		
	<i>(in million Baht)</i>					
	Local currency	Foreign currency	Total amount	Local currency	Foreign currency	Total amount
Guarantees of loans	1	273	274	1	532	533
Other guarantees	11,241	9,529	20,770	9,999	8,275	18,274
Liabilities under unmatured import bills	16	1,686	1,702	48	872	920
Letters of credit	97	1,880	1,977	4	1,349	1,353
Forward interest rate contracts	1,817,219	181,366	1,998,585	1,299,887	165,354	1,465,241
Forward exchange rate contracts	560	681,164	681,724	-	457,477	457,477
Derivative- bond, debenture and equity instruments	14,330	2,137	16,467	890	1,326	2,216
Unused credit lines of overdrafts and credit facilities	77,151	12,737	89,888	84,885	19,244	104,129
<b>Total</b>	<b><u>1,920,615</u></b>	<b><u>890,772</u></b>	<b><u>2,811,387</u></b>	<b><u>1,395,714</u></b>	<b><u>654,429</u></b>	<b><u>2,050,143</u></b>

The Branch is a party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and financial guarantees.

The Branch's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract or notional amount of those instruments. However, some commitments to extend credit can be cancelled or revoked at any time at the Branch's discretion. Furthermore, the notional amounts do not necessarily reflect future cash requirements as facilities may expire without being drawn upon.

The Branch uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The Branch takes collateral where it is considered necessary to support both on and off-balance sheet financial instruments with credit risk. The Branch evaluates each customer's credit worthiness on a case by case basis. The amount of collateral taken, if deemed necessary, is based on management's evaluation of the counterparty. The collateral taken varies but may include cash deposits, real estate, plant and equipment, investments, inventory and receivables.

As at 31 December 2010, the Branch has received a claim in respect of Default on Sale and Purchase Agreement, Bills Torts, Return of Property, and Guarantee totaling Baht 463 million against the Branch. Litigation is currently waiting for the order of the Appeal Court and no provision has been made in the financial statements as the Branch's management does not currently expect that the Branch will incur significant loss from this lawsuit.

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**20 Other expenses**

Other expenses for the years ended 31 December 2010 and 2009 consisted of:

	2010 (in million Baht)	2009 (in million Baht)
Deposit protection premium	255	224
Head office expenses	410	367
Advertising and promotion	372	337
Others	547	563
<b>Total</b>	<b>1,584</b>	<b>1,491</b>

**21 Income tax expense**

	2010 (in million Baht)	2009 (in million Baht)
<i><b>Current tax expense</b></i>		
Current year	855	664
Under provided in prior year	-	19
	<u>855</u>	<u>683</u>
<i><b>Deferred tax expense</b></i>		
Movements in temporary differences	(4)	(83)
	<u>(4)</u>	<u>(83)</u>
<b>Total</b>	<b>851</b>	<b>600</b>

***Reconciliation of effective tax rate***

	2010 (%) Rate	(in million Baht)	2009 (%) Rate	(in million Baht)
Income before income tax		2,700		1,760
Income tax using the Thai corporation tax rate	30.0	810	30.0	528
Under provided in prior year		-		19
Expenses not deductible for tax purposes		41		53
<b>Total</b>	<b>31.5</b>	<b>851</b>	<b>34.1</b>	<b>600</b>

**22 Related party transactions and balances**

The Branch engaged in various transactions with other HSBC Group entities on normal commercial terms and conditions. Related party balances receivable or payable are shown on a net basis under the heading of “balance of inter-office accounts with head office and other branches abroad”.

Transactions between related parties during the years ended 31 December 2010 and 2009 are summarized below.

	2010 (in million Baht)	2009 (in million Baht)
<i><b>Revenues</b></i>		
Fee and commission income	44	30
Other income	3	-

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	2010	2009
	<i>(in million Baht)</i>	
<b>Expenses</b>		
Interest expense on inter-office borrowing	47	5
Fee and commission expense	47	126
Head office expenses	683	582
Other expenses	26	29

The Branch enters into certain treasury transactions, including swap, foreign exchange, and option contracts, with other HSBC Group entities for hedging purposes.

## 23 Credit risk

Credit risk is the potential for loss arising from failure of counterparties to meet their contractual obligations to the Branch in a timely manner.

Credit risk arises from lending activities, investing activities and from buying or selling financial instruments to hedge the risks of the Branch and its customers. The Branch manages credit risk by setting prudential limits for exposures to individual transactions, counterparties and portfolios. Credit limits are set by reference to credit ratings established by recognized rating agencies or by methodologies established by the Branch.

## 24 Interest rate risk

Interest rate risk in the balance sheet arises from the potential for a change in interest rates to have an adverse effect on the net interest earnings of the Branch in the current reporting period and future years. Interest rate risk arises from the structure and characteristic of the Branch's assets, liabilities and equity of head office and other branches abroad, and from the mismatch in repricing dates of its assets and liabilities. The Branch mitigates this risk by using derivative financial instruments, principally interest rate swaps, to manage its exposure to fluctuations in interest rates on specific financial instruments.

Details of the Branch's interest rate risk based on the period to the earlier of the contractual repricing date or maturity at 31 December 2010 and 2009 are as follows:

	2010						(%)
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non- interest bearing	Total	Weighted average effective interest rate (per annum)
	<i>(in million Baht)</i>						
<b>Financial assets</b>							
Cash	-	-	-	-	96	96	-
Interbank and money market items	102,600	-	-	-	950	103,550	1.57
Securities held for trading	59	333	878	1,315	-	2,585	1.91
Securities available-for-sale	6,089	9,544	4,631	-	218	20,482	1.82
Loans and accrued interest receivable, net	40,062	2,931	1,207	245	295	44,740	5.91
<b>Total financial assets</b>	<b>148,810</b>	<b>12,808</b>	<b>6,716</b>	<b>1,560</b>	<b>1,559</b>	<b>171,453</b>	

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2010							(%)
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non- interest bearing	Total	Weighted average effective interest rate (per annum)
<i>(in million Baht)</i>							
<b>Financial liabilities</b>							
Deposits	62,088	3,098	45	-	4,890	70,121	0.38
Interbank and money market items	28,355	2,358	2,249	80	5,251	38,293	2.18
Borrowings	24,588	2,701	917	-	-	28,206	1.29
Liabilities payable on demand	-	-	-	-	2,446	2,446	-
<b>Total financial liabilities</b>	<b>115,031</b>	<b>8,157</b>	<b>3,211</b>	<b>80</b>	<b>12,587</b>	<b>139,066</b>	
<b>On-balance sheet items</b>	<b>33,779</b>	<b>4,651</b>	<b>3,505</b>	<b>1,480</b>	<b>(11,028)</b>	<b>32,387</b>	
2009							(%)
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non- interest bearing	Total	Weighted Average Effective Interest Rate (per annum)
<i>(in million Baht)</i>							
<b>Financial assets</b>							
Cash	-	-	-	-	137	137	-
Interbank and money market items	74,500	-	-	-	615	75,115	1.58
Securities held for trading	267	4,629	531	1,214	-	6,641	2.76
Securities available-for-sale	848	6,429	12,144	-	218	19,639	2.32
Loans and accrued interest receivable, net	38,095	4,473	948	258	236	44,010	6.61
<b>Total financial assets</b>	<b>113,710</b>	<b>15,531</b>	<b>13,623</b>	<b>1,472</b>	<b>1,206</b>	<b>145,542</b>	
<b>Financial liabilities</b>							
Deposits	65,030	2,948	73	-	5,851	73,902	0.63
Interbank and money market items	16,212	2,420	2,331	73	3,371	24,407	2.25
Borrowings	19,049	2,291	292	-	-	21,632	1.74
Liabilities payable on demand	-	-	-	-	1,469	1,469	-
<b>Total financial liabilities</b>	<b>100,291</b>	<b>7,659</b>	<b>2,696</b>	<b>73</b>	<b>10,691</b>	<b>121,410</b>	
<b>On-balance sheet items</b>	<b>13,419</b>	<b>7,872</b>	<b>10,927</b>	<b>1,399</b>	<b>(9,485)</b>	<b>24,132</b>	

## 25 Liquidity risk

The Branch monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Branch's operations and to mitigate the effects of fluctuations in cash flows.

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

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The objective of the Branch's liquidity and funding management framework is to ensure that all foreseeable funding commitments can be met when due. Therefore, the Branch is required to maintain strong liquidity positions and to manage the liquidity profiles of assets, liabilities and commitments with the objective of ensuring that cash flows are balanced appropriately and that all anticipated obligations can be met when due.

The Branch manages its liquidity position under the Bank of Thailand's liquidity reserve regulations and other applicable regulations. The Treasury Department is accountable for managing the Branch's liquidity position by providing short-term and long-term funding sources as well as investing in highly liquid assets in both domestic and foreign currencies. The Branch also ensures that its liquidity position is suitable and sufficient for the current and foreseeable market conditions. The Assets and Liabilities Management Committee supervises management of liquidity risk.

A maturity analysis of financial assets and liabilities as of 31 December 2010 and 2009 was as follows:

	2010						
	At call	Less than 6 months	6 months to 1 year	1 to 5 years	Over 5 years	No maturity	Total
	(in million Baht)						
<b>Financial assets</b>							
Cash	-	-	-	-	-	96	96
Interbank and money market items	858	102,692	-	-	-	-	103,550
Securities held for trading	-	172	220	878	1,315	-	2,585
Securities available-for-sale	-	8,783	6,850	4,631	-	218	20,482
Loans and accrued interest receivable, net	-	35,752	1,654	5,335	1,999	-	44,740
<b>Total financial assets</b>	<b>858</b>	<b>147,399</b>	<b>8,724</b>	<b>10,844</b>	<b>3,314</b>	<b>314</b>	<b>171,453</b>
<b>Financial liabilities</b>							
Deposits	56,340	12,846	890	45	-	-	70,121
Interbank and money market items	7,931	16,755	625	2,576	10,406	-	38,293
Borrowings	-	25,088	1,557	1,561	-	-	28,206
Liabilities payable on demand	2,446	-	-	-	-	-	2,446
<b>Total financial liabilities</b>	<b>66,717</b>	<b>54,689</b>	<b>3,072</b>	<b>4,182</b>	<b>10,406</b>	<b>-</b>	<b>139,066</b>
<b>Liquidity - net</b>	<b>(65,859)</b>	<b>92,710</b>	<b>5,652</b>	<b>6,662</b>	<b>(7,092)</b>	<b>314</b>	<b>32,387</b>
	2009						
	At call	Less than 6 months	6 months to 1 year	1 to 5 years	Over 5 years	No maturity	Total
	(in million Baht)						
<b>Financial assets</b>							
Cash	-	-	-	-	-	137	137
Interbank and money market items	590	74,525	-	-	-	-	75,115
Securities held for trading	-	4,391	505	531	1,214	-	6,641
Securities available-for-sale	-	1,267	6,010	12,144	-	218	19,639
Loans and accrued interest receivable, net	-	34,772	659	6,695	1,884	-	44,010
<b>Total financial assets</b>	<b>590</b>	<b>114,955</b>	<b>7,174</b>	<b>19,370</b>	<b>3,098</b>	<b>355</b>	<b>145,542</b>

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	2009						
		Less than	6 months	1 to 5	Over	No	
	At call	6 months	to 1 year	years	5 years	maturity	Total
	(in million Baht)						
<b>Financial liabilities</b>							
Deposits	54,368	18,726	735	73	-	-	73,902
Interbank and money market items	5,253	6,804	99	2,670	9,581	-	24,407
Borrowings	-	18,026	1,372	2,234	-	-	21,632
Liabilities payable on demand	1,469	-	-	-	-	-	1,469
<b>Total financial liabilities</b>	<b>61,090</b>	<b>43,556</b>	<b>2,206</b>	<b>4,977</b>	<b>9,581</b>	<b>-</b>	<b>121,410</b>
<b>Liquidity - net</b>	<b>(60,500)</b>	<b>71,399</b>	<b>4,968</b>	<b>14,393</b>	<b>(6,483)</b>	<b>355</b>	<b>24,132</b>

## 26 Fair value

The fair value represents the amount for which an asset could be exchanged or a liability settled in an arm's length transaction between knowledgeable and willing parties. Quoted market prices are used as the measure of fair value where available. Where quoted market prices are not available, fair values are based on present value estimates or other methods of valuation.

### *On-balance sheet financial instruments*

Fair value information relating to classes of financial assets or financial liabilities that are carried on the balance sheet at other than net fair value is best provided in a way that permits comparison between the carrying amount and the fair value. Accordingly, the fair values of recognized financial assets and financial liabilities are grouped into classes and offset only to the extent that their related carrying amounts are offset.

### *Off-balance sheet financial instruments*

Fair values of unrecognized financial assets and financial liabilities are presented in a class or classes separate from recognized items and are offset only to the extent that they meet the offsetting criteria for recognized financial assets and financial liabilities.

The net fair value of off-balance sheet financial instruments is normally determined by estimating the amount that would be paid or received to terminate the contract or replace them at their current market rates, net of estimated transaction costs.

### *Estimate market value of financial assets and liabilities*

As at 31 December 2010 and 2009, the financial assets, financial liabilities and off-balance sheet items have fair values that approximate their carrying values at the reporting date.



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**27 Thai Financial Reporting Standards (TFRS) not yet adopted**

The Branch has not adopted the following new and revised TFRS that have been issued as of the reporting date but are not yet effective. The new and revised TFRS are anticipated to become effective for annual financial periods beginning on or after 1 January in the year indicated in the following table.

<b>TFRS</b>	<b>Topic</b>	<b>Year effective</b>
TAS 1 (revised 2009)	Presentation of Financial Statements	2011
TAS 7 (revised 2009)	Statement of Cash Flows	2011
TAS 8 (revised 2009)	Accounting Policies, Changes in Accounting Estimates and Errors	2011
TAS 10 (revised 2009)	Events after the Reporting Period	2011
TAS 17 (revised 2009)	Leases	2011
TAS 18 (revised 2009)	Revenue	2011
TAS 21 (revised 2009)	The Effects of Changes in Foreign Exchange Rates	2013
TAS 23 (revised 2009)	Borrowing Costs	2011
TAS 24 (revised 2009)	Related Party Disclosures	2011
TAS 36 (revised 2009)	Impairment of Assets	2011
TAS 37 (revised 2009)	Provisions, Contingent Liabilities and Contingent Assets	2011
TAS 38 (revised 2009)	Intangible Assets	2011
TAS 40 (revised 2009)	Investment Property	2011
TFRS 2	Share-based Payment	2011

Management expects to adopt and apply these new TFRS in accordance with the FAP's announcement and is presently considering the potential initial impact on the Branch's financial statements.

**28 Reclassification of accounts**

Certain accounts in the 2009 financial statements have been reclassified to conform to the presentation in the 2010 financial statements.