

**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 2011 and 2010



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 statement of financial position as at 31 December 2011, and the related statement of comprehensive income, changes in equity of head office and other branches abroad and cash flows for the year then ended of The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch ("the Branch"). 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 2010 were audited by another auditor whose report dated 14 February 2011 expressed an unqualified opinion on those statements. As explained in notes 2 and 4 to the accompanying financial statements, with effect from 1 January 2011 the Branch has adopted certain new and revised financial reporting standards and complied with the relevant Bank of Thailand's notification with regard to the presentation of the financial statements. The accompanying financial statements for the year ended 31 December 2010 have been restated accordingly.

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 accompanying 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 2011, and the result of its operations and cash flows for the year then ended in accordance with Financial Reporting Standards.

Chanchai S.

(Chanchai Sakulkoedsin)
Certified Public Accountant
Registration No. 6827

KPMG Phoomchai Audit Ltd.
Bangkok
17 February 2012

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Statements of financial position

As at 31 December 2011 and 2010

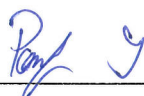
Assets	Note	2011	2010
		<i>(in thousand Baht)</i>	
Cash		123,635	96,096
Interbank and money market items	9	90,321,596	102,934,407
Claims on security		2,719,352	8,017,523
Derivative assets	10	27,324,927	31,953,597
Investments, net	11	41,950,342	23,067,050
Loans to customers and accrued interest receivables, net	12		
Loans to customers		41,829,368	46,160,448
Accrued interest receivables		100,173	171,231
Total loans to customers and accrued interest receivables		41,929,541	46,331,679
Less: deferred revenue		(4,695)	(5,298)
Less : allowance for doubtful accounts	13	(1,102,946)	(1,585,718)
Total loans to customers and accrued interest receivables, net		40,821,900	44,740,663
Customer liabilities under acceptances		56,276	28,062
Properties for sale	14	15,360	-
Leasehold improvements and equipment, net	15	65,046	57,444
Intangible asset, net	16	9,789	14,152
Leasehold right for land and buildings, net	17	488,855	521,312
Deferred tax assets, net	18	61,315	140,192
Assets classified as held for sale, net	20	13,108,922	-
Other assets	21	524,673	2,346,669
Total assets		217,591,988	213,917,167



Neeranuch Upaphattavanij

Chief Financial Officer

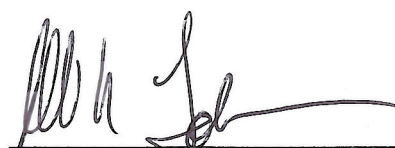
Thailand



Pornthip Junpiti

Manager Financial Report

Thailand



Matthew Lobner

Chief Executive Officer

Thailand

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

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Statements of financial position

As at 31 December 2011 and 2010

Liabilities and equity of head office and other branches abroad

	Note	2011	2010
		<i>(in thousand Baht)</i>	
Liabilities			
Deposits	23	82,918,630	70,121,372
Interbank and money market items	24	15,206,177	22,973,712
Liabilities payable on demand		3,215,700	2,445,819
Liabilities to deliver security		2,719,352	8,017,523
Derivative liabilities	10	28,293,689	33,287,741
Borrowings	25	35,296,489	43,517,672
Bank liabilities under acceptances		56,276	28,062
Provisions	26	145,492	129,173
Liabilities classified as held for sale	20	18,109,486	-
Other liabilities	27	2,758,349	2,793,236
Total liabilities		188,719,640	183,314,310
Equity of head office and other branches abroad			
Funds remitted into Thailand and reserved for maintaining assets under Section 32 of the Financial Institutions Business Act, B.E. 2551	8	11,648,605	10,348,605
Balance of inter-office accounts with head office and other branches abroad	38	13,884,847	18,150,866
Other components of equity of head office and other branches abroad		97,750	(9,971)
Retained earnings		3,241,146	2,113,357
Total equity of head office and other branches abroad		28,872,348	30,602,857
Total liabilities and equity of head office and other branches abroad		217,591,988	213,917,167

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

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Statements of comprehensive income

For the years ended 31 December 2011 and 2010

	<i>Note</i>	2011	2010
		<i>(in thousand Baht)</i>	
Continuing operations			
Interest income	29	4,612,980	2,510,138
Interest expense	30	2,207,181	1,256,375
Net interest income		2,405,799	1,253,763
Fees and service income		888,701	715,603
Fees and service expenses		176,538	138,525
Net fees and service income	31	712,163	577,078
Gain on trading and foreign exchange transactions	32	1,348,230	1,965,597
Gain (loss) on investments	33	(1,293)	4,006
Other operating income		7,302	6,110
Total operating income		4,472,201	3,806,554
Other operating expenses			
Employee expenses	35	769,115	676,286
Premises and equipment expenses		192,734	204,108
Taxes and duties		143,398	117,180
Other expenses	36	642,599	632,655
Total other operating expenses		1,747,846	1,630,229
Reversal of impairment loss of loans	34	(143,002)	(102,140)
Operating profit before income tax expense			
from continuing operations		2,867,357	2,278,465
Income tax expense	37	935,599	688,311
Net profit from continuing operations		1,931,758	1,590,154
Discontinued operation	19		
Profit from discontinued operation		496,031	258,711
Net profit		2,427,789	1,848,865
Other comprehensive income, net of income tax			
Gain (loss) on remeasurement of available-for-sale investments		89,334	(20,786)
Actuarial gains (losses) on defined benefit plans	26	2,102	(5,775)
Other reserves		16,285	13,877
Total other comprehensive income, net of income tax		107,721	(12,684)
Total comprehensive income		2,535,510	1,836,181

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 2011 and 2010

		Funds remitted into Thailand and reserved for maintaining assets	Inter-office accounts with head office and other branches abroad	Other components of equity of head office and other branches abroad Gains (losses) on remeasurement of available-for-sale investments	Others	Retained earnings	Total
	Note						
<i>(in thousand Baht)</i>							
Balance at 1 January 2010		10,348,605	13,780,213	(46,818)	49,531	1,264,492	25,396,023
Comprehensive income for the year							
Profit for the year		-	-	-	-	1,848,865	1,848,865
Other comprehensive income, net of tax							
Losses on remeasurement of available-for-sale investments	11	-	-	(20,786)	-	-	(20,786)
Actuarial losses on defined benefit plans	26	-	-	-	(5,775)	-	(5,775)
Others		-	-	-	13,877	-	13,877
Total other comprehensive income, net of tax		-	-	(20,786)	8,102	-	(12,684)
Total comprehensive income for the year		-	-	(20,786)	8,102	1,848,865	1,836,181
Profit remittance to head office		-	-	-	-	(1,000,000)	(1,000,000)
Movement on balance of inter-office accounts with head office and other branches abroad, net		-	4,370,653	-	-	-	4,370,653
Balance at 31 December 2010 and 1 January 2011		10,348,605	18,150,866	(67,604)	57,633	2,113,357	30,602,857
Comprehensive income for the year							
Profit for the year		-	-	-	-	2,427,789	2,427,789
Other comprehensive income, net of tax							
Gains on remeasurement of available-for-sale investments	11	-	-	89,334	-	-	89,334
Actuarial gains on defined benefit plans	26	-	-	-	2,102	-	2,102
Others		-	-	-	16,285	-	16,285
Total other comprehensive income, net of tax		-	-	89,334	18,387	-	107,721
Total comprehensive income for the year		-	-	89,334	18,387	2,427,789	2,535,510
Profit remittance to head office		-	-	-	-	(1,300,000)	(1,300,000)
Increase in capital fund		1,300,000	-	-	-	-	1,300,000
Movement on balance of inter-office accounts with head office and other branches abroad, net		-	(4,266,019)	-	-	-	(4,266,019)
Balance at 31 December 2011		11,648,605	13,884,847	21,730	76,020	3,241,146	28,872,348

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 2011 and 2010

	2011	2010
	<i>(in thousand Baht)</i>	
<i>Cash flows from operating activities</i>		
Operating profit before income tax expenses	3,578,401	2,699,750
<i>Adjustments to reconcile operating profit before income tax expense to net cash from operating activities</i>		
Depreciation and amortisation	72,296	74,287
(Recovery) bad debt and doubtful accounts	(24,330)	46,256
Provisions (reversal)	149	(13,557)
Unrealised gains on revaluation of trading investment	(79,264)	(40,986)
Gains on disposal of equipment	(1,923)	(499)
Unrealised losses on exchange	186,157	17,877
Unrealised (gains) losses on derivative assets and liabilities	(345,568)	2,429,661
Increase in other reserves	10,473	16,566
Net interest income	(4,213,760)	(3,168,305)
Proceed from interest income	6,898,492	4,453,617
Interest paid	(2,719,803)	(1,302,824)
Income tax paid	(1,042,620)	(791,939)
Operating profit before changes in operating assets and liabilities	2,318,700	4,419,904
 <i>(Increase) decrease in operating assets</i>		
Interbank and money market items (assets)	12,651,924	(27,711,685)
Trading investment	(7,069,734)	4,096,217
Loans to customers	4,111,836	(1,255,989)
Properties for sale	(15,360)	-
Assets classified as held for sale	(13,108,922)	-
Other assets	1,883,413	(893,287)
 <i>Increase (decrease) in operating liabilities</i>		
Deposits	12,495,826	(3,341,637)
Interbank and money market items (liabilities)	(7,774,556)	11,640,900
Liabilities payable on demand	769,880	976,516
Borrowings	(8,221,183)	8,831,130
Employee benefit obligations	19,824	128,711
Liabilities classified as held for sale	18,109,486	-
Other liabilities	(190,266)	606,163
Net cash provided by (used in) operating activities	15,980,868	(2,503,057)

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 2011 and 2010

	2011	2010
	<i>(in thousand Baht)</i>	
<i>Cash flows from investing activities</i>		
Increase in available-for-sale investments	(11,646,155)	(874,428)
Purchases of equipment	(44,929)	(34,837)
Proceeds from sales of equipment	3,774	576
Net cash used in investing activities	(11,687,310)	(908,689)
<i>Cash flows from financing activities</i>		
Increase in funds remitted to Thailand for maintaining assets under Section 32 of Financial Institutions Business Act, B.E. 2551	1,300,000	-
Profit remitted to head office during year	(1,300,000)	(1,000,000)
(Decrease) increase in net balance of inter-office accounts with head office and other branches abroad	(4,266,019)	4,370,653
Net cash (used in) provided by financing activities	(4,266,019)	3,370,653
Net increase (decrease) in cash	27,539	(41,093)
Cash at 1 January	96,096	137,189
Cash at 31 December	123,635	96,096

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

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
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For the years ended 31 December 2011 and 2010

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The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Notes to the financial statements
For the years ended 31 December 2011 and 2010

These notes form an integral part of the financial statements.

The financial statements issued for Thai statutory and regulatory reporting purposes are prepared in the Thai language. These English language financial statements have been prepared from and are consistent with the Thai language statutory financial statements, and both the Thai and English language financial statements were approved and authorised for issue by the management of The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch (“the Branch”) on 17 February 2012.

1 General information

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 (“the Head Office”), which is incorporated in the Hong Kong Special Administrative Region of the People’s Republic of China, 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

2.1 Statement of compliance

The financial statements are prepared in accordance with Thai Financial Reporting Standards (“TFRS”) and guidelines promulgated by the Federation of Accounting Professions (“FAP”), the Bank of Thailand (“BoT”) notification number Sor Nor Sor 11/2553, directive dated 3 December 2010, regarding the “Preparation and announcement of the financial statements of commercial banks and holding companies which are parent company of group of companies offering financial services”.

During 2010 and 2011, the FAP issued the following new and revised TFRS relevant to the Branch’s operations and effective for accounting periods beginning on or after 1 January 2011:

TFRS	Topic
TAS 1 (revised 2009)	Presentation of Financial Statements
TAS 7 (revised 2009)	Statement of Cash Flows
TAS 8 (revised 2009)	Accounting Policies, Changes in Accounting Estimates and Errors
TAS 10 (revised 2009)	Events after the Reporting Period
TAS 16 (revised 2009)	Property, Plant and Equipment
TAS 17 (revised 2009)	Leases
TAS 18 (revised 2009)	Revenue
TAS 19	Employee Benefits
TAS 24 (revised 2009)	Related Party Disclosures
TAS 36 (revised 2009)	Impairment of Assets
TAS 37 (revised 2009)	Provisions, Contingent Liabilities and Contingent Assets
TAS 38 (revised 2009)	Intangible Assets
TAS 40 (revised 2009)	Investment Property
TFRS 2	Share-based Payment
TFRS 5 (revised 2009)	Non-current Assets Held for Sale and Discontinued Operations
FAP Announcement no. 16/2554	Disclosure Guidance on Related Party Transactions with Government

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Notes to the financial statements
For the years ended 31 December 2011 and 2010

TFRS	Topic
FAP Announcement no. 17/2554	Transitional Procedures for Other Long-term Employee Benefits
FAP Announcement no. 18/2554	Accounting Guidance on Revaluation of Assets

The adoption of these new and revised TFRS has resulted in changes in the Branch's accounting policy related to the presentation of financial statements. The effects of these changes are disclosed in note 4.

In addition to the above new and revised TFRS, the FAP has issued during 2010 a number of other new and revised TFRS which are expected to be effective for financial statements beginning on or after 1 January 2013 and have not been adopted in the preparation of these financial statements. These new and revised TFRS are disclosed in note 39.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the statements of financial position:

- Derivative financial instruments are measured at fair value
- Trading investments are measured at fair value
- Available-for-sale financial assets are measured at fair value

2.3 Presentation currency

The financial statements are prepared and presented in thousand 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.

2.4 Use of estimates and judgements

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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods 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 3	Impact of severe flooding in Thailand
Note 6	Financial risk management
Note 7	Fair value of financial instruments
Note 10	Derivatives
Note 11	Investments
Note 13	Allowance for doubtful accounts
Note 14	Properties for sale
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The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Notes to the financial statements
For the years ended 31 December 2011 and 2010

Note 17	Leasehold right for land and buildings
Note 18	Deferred tax assets
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Note 25	Borrowings
Note 26	Employee benefit obligations
Note 28	Contingencies and commitments

3 Impact of severe flooding in Thailand

Due to the recent flooding in Thailand, the BoT has implemented measures requesting banks to provide support to their impacted customers, where a request for such support is made and approved by the bank and where the customer's account status is Pass or Special Mention. These measures are set out in Circular Sor Nor Sor. (23) Wor. 1564/2554, dated 19 October 2011.

As at 31 December 2011, customers with balances due aggregating to Baht 892 million have been granted relief under the measures referred to above.

The Branch continues to monitor the underlying performance of flood affected customers, and make impairment provisions where considered necessary.

4 Change in accounting policy

4.1 Overview

From 1 January 2011, consequent to the adoption of new and revised TFRS as set out in note 2, the Branch has changed its accounting policy related to the presentation of financial statements.

4.2 Presentation of financial statements

From 1 January 2011, the Branch has adopted TAS 1 Presentation of Financial Statements (Revised 2009). Under the revised standard, a set of financial statements comprises:

- Statement of financial position;
- Statement of comprehensive income;
- Statement of changes in equity of head office and other branches abroad;
- Statement of cash flows; and
- Notes to the financial statements

As a result, the Branch presents all owner changes in equity in the statement of changes in equity of head office and other branches abroad and all non-owner changes in equity in the statement of comprehensive income. Previously, all such changes were included in the statement of changes in equity of head office and other branches abroad.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on reported profit.

4.3 Adoption of Thai Accounting Standard 19 Employee Benefits

In 2010, the FAP issued then new TFRS, TAS 19 Employee Benefits, relevant to the Branch 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 Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Notes to the financial statements
For the years ended 31 December 2011 and 2010

5 Significant accounting policies

5.1 Foreign currency transactions

Transactions in foreign currencies are translated to Thai Baht at the foreign exchange rates ruling at the dates of the transactions.

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 recognised in profit or loss.

Non-monetary assets and liabilities measured at cost in foreign currencies are translated to Thai Baht using the foreign exchange rates ruling at the dates of the transactions.

Non-monetary assets and liabilities measured at fair value in foreign currencies are translated to Thai Baht at the foreign exchange rates ruling at the dates that fair value was determined.

5.2 Cash

Cash consists of cash on hand and cash on collection.

5.3 Investments

Classification of investments

The Branch classifies its investments in securities as trading investments, available-for-sale investments, held-to-maturity investments and general investments.

Debt securities and marketable equity securities that the Branch acquires with the intention of holding for a short period of time in order to take advantage of anticipated changes in the underlying market values are classified as trading investments. Trading investments are stated at fair value, with any changes in fair value being recognised in profit or loss. Interest and dividend income on trading investments is recognised in profit or loss using the accrual basis of accounting.

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 impairment losses. Premiums and discounts on held-to-maturity investments are amortised or accreted as adjustments to interest income using the effective interest rate method over the term of the investments. Interest income on held-to-maturity investments is recognised in profit or loss using the accrual basis of accounting.

Debt securities and marketable equity securities that are not classified as trading investments or held-to-maturity investments are classified as available-for-sale investments. Available-for-sale investments are, subsequent to initial recognition, stated at fair value, and changes on available-for-sale monetary items, are recognised directly in other comprehensive income. Impairment losses and foreign exchange differences are recognised in profit or loss. When these investments are derecognised, the cumulative gain or loss previously recognised directly in other comprehensive income, is recognised in profit or loss. Where these investments are interest-bearing, interest income is calculated using the effective interest method and is recognised in profit or loss using the accrual basis of accounting.

Equity securities which are not marketable are classified as general investments and are stated at cost less impairment losses.

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Notes to the financial statements
For the years ended 31 December 2011 and 2010

Fair value of investments

The following methodologies are used to determine the fair value of investments held by the Branch.

The fair value of listed equity securities is estimated based on the bidding prices at The Stock Exchange of Thailand (“SET”) on the last business day of the reporting period.

The fair value of government securities and state enterprises securities guaranteed by the government is estimated based on Government Bond Yield Curve at the Thai Bond Market Association (“Thai BMA”) as of the reporting date. The fair value of state enterprises debt securities not guaranteed by the government and private debt securities is estimated based on bid prices from the Thai BMA as of reporting date.

The fair value of foreign debt and equity securities listed on the foreign stock exchanges is estimated based on the bid prices at such exchanges as of the reporting date. The fair value of non-listed foreign debt and equity securities is estimated based on the values quoted by reliable international financial institutions.

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 other comprehensive income is recognised in profit or loss.

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.

5.4 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 recognised 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.

5.5 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 profit or loss.

5.6 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.

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Notes to the financial statements
For the years ended 31 December 2011 and 2010

5.7 Properties for sale

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 recognised on such properties only when sold. Loss on impairment of properties for sale is recognised in profit or loss.

5.8 Leasehold improvements and equipment

Recognition and measurement

Owned assets

Leasehold improvements and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Gains and losses on disposal of an item of leasehold improvements and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item, and are recognised net in profit or loss.

Subsequent costs

The cost of replacing a part of an item of leasehold improvements and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Branch, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of the leasehold improvements and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is calculated based on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each component of an item of leasehold improvements and equipment. The estimated useful lives are as follows:

Leasehold improvements	5 - 8 years
Equipment	3 - 7 years

No depreciation is provided on assets under construction.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

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5.9 Intangible asset

Intangible asset that is acquired by the Branch and has finite useful life is measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of intangible asset from the date that it is available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life for the current and comparative periods is as follows:

Software license	5 years
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Amortisation methods, useful life and residual value are reviewed at each financial year-end and adjusted if appropriate.

5.10 Leasehold right for land and buildings

Leasehold right for land and buildings is stated at cost less accumulated amortisation and accumulated impairment losses. The amortisation is charged to profit or loss on a straight-line basis over the lease period of 28 years.

5.11 Impairment

The carrying amounts of the Branch's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The impairment loss is recognised in profit or loss.

An impairment loss is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised or if there has been a change in the estimates used to determine the recoverable amount. The reversal of impairment loss is recognised in profit or loss.

5.12 Derivatives

Derivative financial instruments are used to manage exposure to interest and foreign exchange rates and arising from operational, financing and investment activities. Derivative financial instruments that do not qualify for hedge accounting are accounted for as trading instruments.

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Derivatives are recognised initially at fair value from the date a derivative contract is entered into (trade date) and are subsequently remeasured at their fair value. The gain or loss on remeasurement is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss on remeasurement depends on the nature of the item being hedged.

All derivatives are carried as assets when fair value is positive as “Derivatives assets” and as liabilities when fair value is negative as “Derivatives liabilities” in the statements of financial position.

The Branch designated 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 recognised 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 profit or loss, 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 profit or loss 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 recognised in other comprehensive income. Any gain or loss relating to an ineffective portion is recognised immediately in the profit or loss.

Amounts accumulated in other comprehensive income are recycled through profit or loss in the periods in which the hedged item will affect profit or loss.

Discontinuing hedge accounting

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss on the hedging instrument existing in Head Office’s equity is retained in Head Office’s equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in Head Office’s equity is recognised in profit or loss immediately.

5.13 Employee benefits

Post employment benefits

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

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Defined contribution plan

A defined contribution plan is a post-employment benefit plan where the Branch pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

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 statements of financial position.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Branch's net obligation in respect of defined benefit plans is calculated annually by a qualified actuary using the projected unit credit method separately for each plan based on estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and adjust for any past service costs. The discount rate is the yield at 31 December 2011 and 2010 on government bonds that have maturity dates approximating the terms of the Branch's obligations.

Actuarial gains and losses that arise are recognised in other comprehensive income. 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.

Equity compensation plan

Where shares of HSBC Holdings Plc., the ultimate parent company of the Head Office, 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 recognised 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".

5.14 Provisions

Provisions are recognised if, as a result of a past event, the Branch has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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5.15 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 recognised in interest income and interest expense in profit or loss 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.

5.16 Non-interest income and expenses

Fees and commission income are recognised in profit or loss when the related services are rendered.

Dividend income is recognised in profit or loss on the date the Branch's right to receive the dividend is established.

Non-interest expenses are recognised on an accrual basis.

5.17 Income tax

Income tax expense for the year comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in a separate component of the equity of head office and other branches abroad or in other comprehensive income.

Current tax

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

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax, the Branch takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Branch believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Branch to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

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Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. 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.

5.18 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statements of financial position when the Branch has a legal, enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

5.19 Disposal group held for sale

Disposal group comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use, is classified as held for sale. The disposal group is measured at the lower of its carrying value and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

5.20 Discontinued operations

A discontinued operation is a component of the Branch's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is restated as if the operation had been discontinued from the start of the comparative period.

6 Financial risk management

The Branch has following risks from financial instruments:

- Credit risk
- Market risk
- Liquidity risk

6.1 Credit risk

Credit risk is the potential of financial 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 recognised rating agencies or by methodologies established by the Branch.

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6.2 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Branch's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Branch faces three major types of market risk namely interest rate risk, foreign exchange rate risk and equity price risk.

Interest rate risk

Interest rate risk arises from the potential for a change in interest rates which may have an adverse effect on the value of the Branch's financial instruments or Branch's earnings or cost of funds, both 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 2011 and 2010 were as follows:

	2011					Total	Weighted average effective interest rate (per annum) (%)
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing		
	<i>(in million Baht)</i>						
<i>Financial assets</i>							
Cash	-	-	-	-	124	124	-
Interbank and money market items	88,351	-	-	-	1,971	90,322	3.01
Investments	7,253	20,538	11,901	2,036	222	41,950	2.77
Loans to customers and accrued interest receivable, net	35,388	4,823	257	208	146	40,822	6.34
Total financial assets	130,992	25,361	12,158	2,244	2,463	173,218	
<i>Financial liabilities</i>							
Deposits	75,837	779	1	-	6,302	82,919	1.07
Interbank and money market items	9,013	1,000	-	-	5,193	15,206	2.46
Liabilities payable on demand	-	-	-	-	3,216	3,216	-
Borrowings	29,416	3,728	2,069	83	-	35,296	3.06
Total financial liabilities	114,266	5,507	2,070	83	14,711	136,637	
On-financial reporting items	16,726	19,854	10,088	2,161	(12,248)	36,581	

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2010							Weighted average effective interest rate (per annum) (%)
	Less than 3 months	3 months to 1 year	1 to 5 years (in million Baht)	Over 5 years	Non- interest bearing	Total	
Financial assets							
Cash	-	-	-	-	96	96	-
Interbank and money market items	101,984	-	-	-	950	102,934	1.57
Investments	6,148	9,877	5,509	1,315	218	23,067	1.85
Loans to customers and accrued interest receivable, net	40,062	2,931	1,207	245	295	44,740	5.91
Total financial assets	148,194	12,808	6,716	1,560	1,559	170,837	
Financial liabilities							
Deposits	62,088	3,098	45	-	4,890	70,121	0.70
Interbank and money market items	17,223	500	-	-	5,251	22,974	2.22
Liabilities payable on demand	-	-	-	-	2,446	2,446	-
Borrowings	35,713	4,559	3,166	80	-	43,518	1.29
Total financial liabilities	115,024	8,157	3,211	80	12,587	139,059	
On-financial reporting items	33,170	4,651	3,505	1,480	(11,028)	31,778	

Foreign exchange rate risk

Foreign exchange rate risk is the risk that occurs from changes in foreign exchange rates which may affect the value of the financial instrument or may cause volatility in the Branch's earnings or cost of fund. Tools adopted for managing foreign exchange rate risk are for instance, limited open positions and VaR. As at 31 December 2011 and 2010, foreign currency positions in Baht equivalent were as follows:

2011						
	USD	Euro	Yen	Pound	Others	Total
Financial assets						
Cash	3	3	-	3	1	10
Interbank and money market items	-	28	-	10	19	57
Derivative assets	6,184	721	19,670	-	750	27,325
Loans to customers and accrued interest receivable, net	12,657	555	-	-	65	13,277
Total financial assets	18,844	1,307	19,670	13	835	40,669
Financial liabilities						
Deposits	22,074	462	4,085	77	56	26,754
Interbank and money market items	1,412	-	-	-	-	1,412
Derivative liabilities	2,599	794	19,627	-	792	23,812
Liabilities payable on demand	6	1	-	2	2	11
Total financial liabilities	26,091	1,257	23,712	79	850	51,989
On-financial reporting items, net	(10,832)	123	(4,085)	(66)	27	(14,833)
Off-financial reporting items, net	3,585	(73)	43	-	(42)	3,513

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	USD	Euro	2010 Yen Pound (in million Baht)		Others	Total
<i>Financial assets</i>						
Cash	1	2	-	-	1	4
Interbank and money market items	-	10	-	13	12	35
Derivative assets	7,182	843	22,691	20	1,218	31,954
Loans to customers and accrued interest receivable, net	11,029	132	-	-	22	11,183
Total financial assets	18,212	987	22,691	33	1,253	43,176
<i>Financial liabilities</i>						
Deposits	10,366	716	2,126	897	572	14,677
Interbank and money market items	800	-	-	-	1	801
Derivative liabilities	7,990	993	23,020	1	1,284	33,288
Liabilities payable on demand	5	1	-	2	2	10
Total financial liabilities	19,161	1,710	25,146	900	1,859	48,776
On-financial reporting items, net	(141)	(573)	(2,126)	(886)	(540)	(4,266)
Off-financial reporting items, net	(808)	(150)	(329)	19	(66)	(1,334)

Equity price risk

Equity price risk is any risk arising from changes in the price of equities or common stock that may cause volatility in the Branch's earnings or fluctuations in the value of the Branch's financial assets. The Branch manages its equity price risk by close monitoring of market situations to provide information for management to retain maximum benefits for the Branch.

6.3 Liquidity risk

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.

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 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.

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.

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A maturity analysis of financial assets and liabilities as at 31 December 2011 and 2010 was as follows:

			2011				
			6 months				
	At call	Less than	to	1 to 5	Over	No	Total
		6 months	1 year	years	5 years	maturity	
(in million Baht)							
Financial assets							
Cash	-	-	-	-	-	124	124
Interbank and money market items	1,840	88,482	-	-	-	-	90,322
Investments	-	12,043	15,748	11,901	2,036	222	41,950
Loans to customers and accrued interest receivable, net	-	31,265	2,363	3,329	3,865	-	40,822
Total financial assets	1,840	131,790	18,111	15,230	5,901	346	173,218
Financial liabilities							
Deposits	72,611	10,000	307	1	-	-	82,919
Interbank and money market items	7,838	7,368	-	-	-	-	15,206
Liabilities payable on demand	3,216	-	-	-	-	-	3,216
Borrowings	-	18,268	1,549	6,797	8,682	-	35,296
Total financial liabilities	83,665	35,636	1,856	6,798	8,682	-	136,637
Liquidity, net	(81,825)	96,154	16,255	8,432	(2,781)	346	36,581
			2010				
			6 months				
	At call	Less than	to	1 to 5	Over	No	Total
		6 months	1 year	Years	5 years	maturity	
(in million Baht)							
Financial assets							
Cash	-	-	-	-	-	96	96
Interbank and money market items	857	102,077	-	-	-	-	102,934
Investments	-	8,955	7,070	5,509	1,315	218	23,067
Loans to customers and accrued interest receivable, net	-	35,752	1,654	5,335	1,999	-	44,740
Total financial assets	857	146,784	8,724	10,844	3,314	314	170,837
Financial liabilities							
Deposits	56,340	12,846	890	45	-	-	70,121
Interbank and money market items	7,931	15,043	-	-	-	-	22,974
Liabilities payable on demand	2,446	-	-	-	-	-	2,446
Borrowings	-	26,793	2,182	4,137	10,406	-	43,518
Total financial liabilities	66,717	54,682	3,072	4,182	10,406	-	139,059
Liquidity, net	(65,860)	92,102	5,652	6,662	(7,092)	314	31,778

7 Fair value of financial instruments

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. Fair values of financial instruments are their quoted market prices or where, quoted market prices are not available, based on estimates using present value or other valuation techniques. These techniques are significantly affected by the assumptions including discount rate and estimated cash flow. Hence, estimated fair values from different techniques may vary significantly.

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As at 31 December 2011 and 2010, a summary of the carrying value and fair value of financial instruments was as follows:

	2011		2010	
	Carrying value	Fair value (in million Baht)	Carrying value	Fair Value
<i>Financial assets</i>				
Cash	124	124	96	96
Interbank and money market items	90,322	90,322	102,934	102,934
Investments	41,950	41,950	23,067	23,067
Loans to customers and accrued interest receivables, net	40,822	40,822	44,740	44,740
Total financial assets	173,218	173,218	170,837	170,837
<i>Financial liabilities</i>				
Deposits	82,919	82,919	70,121	70,121
Interbank and money market items	15,206	15,206	22,974	22,974
Liabilities payable on demand	3,216	3,216	2,446	2,446
Borrowings	35,296	35,299	43,518	43,508
Total financial liabilities	136,637	136,640	139,059	139,049

The following methods and assumptions were used by the Branch in estimating fair values of financial assets and liabilities as disclosed herein:

The fair values of cash, interbank and money market items (assets and liabilities), deposits, liabilities payable on demand approximate the carrying values at which they are stated on the statement of financial position.

The fair values of investments are stated according to the Bank's accounting policies mentioned in Note 5.

The fair values of loans to customers and accrued interest receivables are based on the carrying values of loans to customers and accrued interest receivables, net of deferred revenue, allowance for doubtful accounts and revaluation allowance for debt restructuring, if any.

The fair values of borrowings are estimated by using market values.

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8 Maintenance of capital fund

The Branch maintains its capital funds in accordance with Section 32 of the Financial Institution Business Act B.E. 2551 by maintaining its capital fund as a proportion of risk assets in accordance with the criteria, methodologies, and conditions prescribed by the Bank of Thailand.

As at 31 December 2011 and 2010, the Branch's capital structure can be summarised as follow:

	2011 (in million Baht)	2010
Assets maintained under Section 32	12,116	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	11,649	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	14,032	18,508
Total	25,681	28,857
Total Capital Fund	11,649	10,349
Capital adequacy ratio	12.55%	11.95%

Disclosure of capital maintenance information under the Notification of the Bank of Thailand number Sor Nor Sor 25/2552, dated 14 December 2009, titled "Public Disclosures of Capital Maintenance for Commercial Banks" will be located at the Branch's website: www.hsbc.co.th within four months of the year end.

9 Interbank and money market items (assets)

Interbank and money market items at 31 December 2011 and 2010 consisted of:

	At call	2011 Term	Total	At call	2010 Term	Total
	(in million Baht)					
Domestic						
The Bank of Thailand and Financial Institutions						
Development Fund	1,446	74,638	76,084	433	101,985	102,418
Commercial banks	336	12,013	12,349	380	-	380
Specialised financial institutions	1	-	1	9	-	9
Other financial institutions	-	1,700	1,700	-	-	-
Add: accrued interest receivable	-	131	131	-	92	92
Total domestic	1,783	88,482	90,265	822	102,077	102,899
Foreign						
Euro	28	-	28	10	-	10
Other currencies	29	-	29	25	-	25
Total foreign	57	-	57	35	-	35
Total domestic and foreign	1,840	88,482	90,322	857	102,077	102,934

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10 Derivatives

10.1 Derivatives held for trading

Fair value and notional amount at 31 December 2011 and 2010 classified by type of risks:

Type of risk	Fair value		2011		Total
	Assets	Liabilities	Notional amount		
			Upto 1 year (in million Baht)	Over 1 year	
Exchange rate	16,136	14,179	684,127	176,104	860,231
Interest rate	11,046	14,035	1,119,806	1,391,847	2,511,653
Others					
- Equities	143	9	865	2,377	3,242
- Bonds	-	-	4,437	-	4,437
Total	27,325	28,223	1,809,235	1,570,328	3,379,563

Type of risk	Fair value		2010		Total
	Assets	Liabilities	Notional amount		
			Upto 1 year (in million Baht)	Over 1 year	
Exchange rate	17,643	18,110	581,188	134,331	715,519
Interest rate	14,107	15,083	715,586	1,282,998	1,998,584
Others - Equities	204	-	475	2,492	2,967
Total	31,954	33,193	1,297,249	1,419,821	2,717,070

As at 31 December 2011 and 2010, proportions of the notional amount of derivative transactions, classified by counterparties, consisted of:

Counterparty	2011 (%)	2010
Financial institutions	52	52
Related parties	40	38
Third parties	8	10
Total	100	100

10.2 Derivatives held for fair value hedge

The Branch has entered into the interest rate swap contracts for fair value hedge of its investment in debt securities under available-for-sale investments with residual maturity over one year. As at 31 December 2011 and 2010, the fair value and notional amount of derivatives held for fair value hedging, classified by type of risk, consisted of:

	2011			2010		
	Assets	Liabilities	Notional amount (in million Baht)	Assets	Liabilities	Notional amount
Interest rate	-	71	1,149	-	95	1,149
Total	-	71	1,149	-	95	1,149

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11 Investments

As at 31 December 2011 and 2010, investments, classified by investment type, consisted of:

	2011 Fair value (in million Baht)	2010 Fair value (in million Baht)
Trading investment		
Government and state enterprise securities	9,734	2,585
Total	9,734	2,585
Available-for-sale investment		
Government and state enterprise securities	31,994	20,264
Marketable equity shares - domestic	222	218
Total	32,216	20,482
Total investments	41,950	23,067

As at 31 December 2011, investments classified as available-for-sale with market value of Baht 12,116 million (2010: Baht 10,855 million) and Baht 2,023 million (2010: Baht 3,013 million) were maintained as capital fund with the Bank of Thailand and collateralised to other parties under repurchase agreements, respectively.

As at 31 December 2011 and 2010, gain (loss) on remeasurement of available-for-sale investments consisted of:

	2011 (in million Baht)	2010 (in million Baht)
Gain on investments:		
Debt securities	73	8
Equity securities	22	18
Loss on investments:		
Debt securities	(47)	(87)
Total	48	(61)
Less: deferred tax	(26)	(7)
Net	22	(68)

12 Loans to customers and accrued interest receivables

12.1 Classified by type of loans

	2011 (in million Baht)	2010 (in million Baht)
Overdrafts	1,052	287
Loans	35,631	41,398
Bills	5,147	4,475
Less: deferred revenue	(5)	(5)
Total loans to customers net from deferred revenue	41,825	46,155
Add: accrued interest receivables	100	171
Total loans to customers net from deferred revenue and accrued interest receivables	41,925	46,326
Less: allowance for doubtful accounts		
- BoT's minimum requirement - individual approach	(901)	(1,190)
- Allowance in excess of BoT's minimum requirement	(202)	(396)
Total loans to customers and accrued interest receivables, net	40,822	44,740

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12.2 Classified by currency and residency of debtors

	Domestic	2011 Foreign	Total	Domestic	2010 Foreign	Total
			<i>(in million Baht)</i>			
Baht	28,276	-	28,276	34,731	7	34,738
US Dollar	12,756	159	12,915	10,806	430	11,236
Other currencies	577	57	634	80	101	181
Total	41,609	216	41,825	45,617	538	46,155

12.3 Classified by type of business and loan classification

	Pass	Special mention	2011 Substandard	Doubtful	Doubtful of loss	Total
			<i>(in million Baht)</i>			
Agriculture and mining	232	-	-	-	-	232
Industrial and commercial	25,612	250	-	364	394	26,620
Property and construction	1,316	200	-	-	-	1,516
Infrastructure and service	12,771	55	-	-	-	12,826
Home mortgages	421	-	-	-	-	421
Others	207	-	-	3	-	210
Total	40,559	505	-	367	394	41,825

	Pass	Special mention	2010 Substandard	Doubtful	Doubtful of loss	Total
			<i>(in million Baht)</i>			
Agriculture and mining	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
Others	11,344	317	164	3	48	11,876
Total	42,803	1,963	166	448	775	46,155

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12.4 Loans classified by grade

			2011 % used for setting allowance for doubtful accounts	Allowance for doubtful accounts
	Loans and accrued interest receivables	Amount after net of collateral (in million Baht)		
Allowance as per BoT's minimum requirement				
- Pass	40,657	38,099	1	380
- Special mention	507	483	2	10
- Substandard	-	-	100	-
- Doubtful	367	192	100	192
- Doubtful of loss	394	319	100	319
Total				901
Allowance in excess of BoT's minimum requirement				202
Total	41,925	39,093		1,103

			2010 % used for setting allowance for doubtful accounts	Allowance for doubtful accounts
	Loans and accrued interest receivables	Amount after net of collateral (in million Baht)		
Allowance as per BoT's minimum requirement				
- 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
Total				1,190
Allowance in excess of BoT's minimum requirement				396
Total	46,326	41,966		1,586

12.5 Non-performing loans

Non performing loans ("NPLs") according to the BoT's regulations refer to all substandard, doubtful, doubtful of loss and loss loans. As at 31 December 2011 and 2010, the Branch' NPLs (including interbank and money market items and loans held for sale) were summarised as follows:

	2011 (in million Baht)	2010 (in million Baht)
Non-performing loans, gross		
NPLs, gross	1,015	1,389
Total loans used for NPLs gross ratio calculation	143,679	148,755
% of NPL to total loans, gross	0.71%	0.93%

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	2011	2010
	<i>(in million Baht)</i>	
<i>Non-performing loans, net</i>		
NPLs, net	75	299
Total loans used for NPLs net ratio calculation	142,739	147,665
% of NPLs to total loans, net	0.05%	0.20%

At 31 December 2011, specific provisions of Baht 940 million (2010: Baht 1,090 million) have been provided against the Branch's non-performing loans, being those classified as substandard, doubtful and doubtful of loss.

13 Allowance for doubtful accounts

Movements in the allowance for doubtful accounts during the years ended 31 December 2011 and 2010 consisted of:

	2011					
	Pass	Special mention	Substandard	Doubtful	Doubtful of loss	Total
	<i>(in million Baht)</i>					
Balance at beginning of the year	457	39	165	368	557	1,586
Doubtful accounts charge	101	4	513	151	(793)	(24)
Bad debts recoveries	-	-	-	-	659	659
Bad debts written off	-	-	-	-	(611)	(611)
Movement in exchange rate	-	-	-	5	1	6
Movement to other grades	(152)	(33)	(678)	(191)	541	(513)
Balance at end of the year	406	10	-	333	354	1,103

	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	-
Balance at end of the year	457	39	165	368	557	1,586

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14 Properties for sale

As at 31 December 2011 and 2010, properties for sale consisted of:

	Beginning balance	2011		Ending balance
		Additions (in million Baht)	Disposals	
Assets acquired from debt repayment				
Immovable assets				
- Appraised by external appraiser	-	15	-	15
Total properties for sale	-	15	-	15
	Beginning balance	2010		Ending balance
		Additions (in million Baht)	Disposals	
Assets acquired from debt repayment				
Immovable assets				
- Appraised by external appraiser	-	-	-	-
Total properties for sale	-	-	-	-

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15 Leasehold improvements and equipment

Changes in leasehold improvements and equipment during the year ended 31 December 2011 were as follows:

	Beginning balance	Cost		Ending balance	Beginning balance (in million Baht)	Accumulated depreciation		Ending balance	Net book value 31 December 2011
		Additions	Disposals			Depreciation	Disposals		
Leasehold improvements	317	-	-	317	314	2	-	316	1
Equipment	405	44	(51)	398	350	33	(49)	334	64
Total	722	44	(51)	715	664	35	(49)	650	65

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

	Beginning balance	Cost		Ending balance	Beginning balance (in million Baht)	Accumulated depreciation		Ending balance	Net book value 31 December 2010
		Additions	Disposals			Depreciation	Disposals		
Leasehold improvements	317	-	-	317	311	3	-	314	3
Equipment	398	33	(26)	405	341	35	(26)	350	55
Total	715	33	(26)	722	652	38	(26)	664	58

The gross amount of the Branch's fully depreciated leasehold improvements and equipment that was still in use as at 31 December 2011 amounted to Baht 597 million (2010: Baht 582 million).

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16 Intangible asset

Changes in intangible asset during the year ended 31 December 2011 were as follows:

	Beginning balance	Cost		Ending balance	Beginning balance (in million Baht)	Accumulated amortisation		Ending balance	Net book value 31 December 2011
		Additions	Disposals			Amortisation	Disposals		
Software license	207	1	(34)	174	193	5	(34)	164	10
Total	207	1	(34)	174	193	5	(34)	164	10

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

	Beginning balance	Cost		Ending balance	Beginning balance (in million Baht)	Accumulated amortisation		Ending balance	Net book value 31 December 2010
		Additions	Disposals			Amortisation	Disposals		
Software license	205	2	-	207	188	5	-	193	14
Total	205	2	-	207	188	5	-	193	14

Amortisation presented in premises and equipment expenses in the statements of comprehensive income of the Branch for the year end 31 December 2011 amounted to Baht 5 million (2010: Baht 5 million).

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17 Leasehold right for land and buildings

	2011	2010
	<i>(in million Baht)</i>	
Cost	909	909
<i>Less</i> accumulated amortisation	(420)	(388)
Net	489	521

18 Deferred tax assets

As at 31 December 2011 and 2010, deferred tax assets and liabilities consisted of:

	2011	2010
	<i>(in million Baht)</i>	
Deferred tax assets	209	288
Deferred tax liabilities	(148)	(148)
Net	61	140

Movements in deferred tax assets and liabilities during the year ended 31 December 2011 and 2010 were as follows:

	At 1 January 2011	Charged/(credited) to Profit or loss (note 37)	Other comprehensive income	At 31 December 2011
	<i>(in million Baht)</i>			
<i>Deferred tax assets</i>				
Investments	3	(2)	(5)	(4)
Allowance for doubtful accounts and provision for contingent liabilities	124	(34)	-	90
Other items	161	(35)	(3)	123
Total	288	(71)	(8)	209
<i>Deferred tax liabilities</i>				
Investments	23	13	14	50
Deferred expenses	43	13	-	56
Borrowings and financial instruments	82	(40)	-	42
Total	148	(14)	14	148
Net	140	(57)	(22)	61

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	At 1 January 2010	Charged/(credited) to Profit or Loss (note 37) (in million Baht)	Other comprehensive income	At 31 December 2010
Deferred tax assets				
Investments	18	-	(15)	3
Allowance for doubtful accounts and provision for contingent liabilities	130	(6)	-	124
Other items	107	52	2	161
Total	255	46	(13)	288
Deferred tax liabilities				
Investments	35	13	(25)	23
Deferred expenses	45	(2)	-	43
Borrowings and financial instruments	51	31	-	82
Total	131	42	(25)	148
Net	124	4	12	140

19 Discontinued operation

During 2011, the Head Office decided to offer for sale the retail business of the Branch, comprising its entire retail segment (note 20). A sale and purchase agreement for a part of the retail segment was entered into in January 2012 with completion expected during 2012. The agreement is subject to certain regulatory and other approvals. Accordingly, this segment has been accounted for as a discontinued operation, and the related assets and liabilities classified as held for sale as at 31 December 2011. The comparatives in the statement of comprehensive income have been represented to show the discontinued operation separately from continuing operations.

An analysis of the results of discontinued operation for the years ended 31 December 2011 and 2010 was as follows:

	2011 (in million Baht)	2010 (in million Baht)
Interest income	2,429	1,974
Interest expense	620	314
Net interest income	1,809	1,660
Fees and service income	848	747
Fees and service expenses	124	144
Net fees and service income	724	603
Other operating income	99	90
Total operating income	2,632	2,353
Other operating expenses	(1,802)	(1,783)
Bad debt and doubtful accounts	(119)	(148)
Operating profit before income tax expense from discontinued operations	711	422
Income tax expense	(215)	(163)
Net profit from discontinued operations	496	259

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Cash flows provided by (used in) the discontinued operation during the years ended 31 December 2011 and 2010 were as follows:

	2011	2010
	(in million Baht)	
Net cash provided by operating activities	447	1,353
Net cash used in financing activities	(421)	(1,392)
Net cash provided by (used in) discontinued operation	26	(39)

20 Disposal group held for sale

The retail business is presented as a disposal group held for sale as described in note 19. As at 31 December 2011, disposal group consisted of:

	2011
	(in million Baht)
<i>Assets of disposal group</i>	
Retail loans and accrued interest receivables	13,622
<i>Less: allowance for doubtful accounts</i>	(513)
Total assets classified as held for sale, net	13,109
<i>Liabilities of disposal group</i>	
Deposit	13,076
Borrowings	5,033
Total liabilities classified as held for sale	18,109

Cumulative income or expense recognised in other comprehensive income

There is no cumulative income or expense recognised in other comprehensive income relating to the disposal group classified as held for sale.

21 Other assets

At 31 December 2011 and 2010, other assets consisted of:

	2011	2010
	(in million Baht)	
Accrued income receivable	185	129
Other receivables	26	1,959
Others	314	259
Total	525	2,347

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22 Classified assets

As at 31 December 2011 and 2010, assets of the Branch were categorised by quality in compliance with the BoT regulations, taking into account analyses of each loan and appraisal of the financial standing of each borrower, as follows:

	Investments	2011 Loans and accrued interest Receivables		Assets held for sale and properties for sale	Total
		Interbank and money market	Customers (in million Baht)		
Pass	41,950	88,482	40,657	12,812	183,901
Special mention	-	-	507	571	1,078
Sub-Standard	-	-	-	186	186
Doubtful	-	-	367	9	376
Doubtful of loss	-	-	394	59	453
	41,950	88,482	41,925	13,637	185,994

	Investments	2010 Loans and accrued interest receivables		Assets held for sale and properties for sale	Total
		Interbank and money market	Customers (in million Baht)		
Pass	23,067	102,077	42,968	-	168,112
Special mention	-	-	1,969	-	1,969
Sub-Standard	-	-	166	-	166
Doubtful	-	-	448	-	448
Doubtful of loss	-	-	775	-	775
	23,067	102,077	46,326	-	171,470

Investments are stated at fair value. As at 31 December 2011, investments classified as doubtful of loss according to the BoT's definition represented unrealised loss on revaluation of Baht 28 million (2010: Baht 69 million).

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23 Deposits

Deposits as at 31 December 2011 and 2010 were classified as follows:

Classified by type of deposits:

	2011	2010
	<i>(in million Baht)</i>	
Current	7,269	4,890
Saving	65,342	51,450
Term (original maturity)		
- Less than 6 months	10,000	11,625
- More than 6 months but less than 1 year	307	2,043
- 1 year and over	1	113
Total	82,919	70,121

Classified by currency and residency of depositors:

	2011			2010		
	Domestic	Foreign	Total	Domestic	Foreign	Total
	<i>(in million Baht)</i>					
Baht	54,579	1,585	56,164	52,974	2,470	55,444
US Dollar	21,467	607	22,074	8,638	1,727	10,365
Other currencies	4,461	220	4,681	3,252	1,060	4,312
Total	80,507	2,412	82,919	64,864	5,257	70,121

24 Interbank and money market items (liabilities)

Interbank and money market items (liabilities) as at 31 December 2011 and 2010 consisted of:

	2011			2010		
	At call	Term	Total	At call	Term	Total
	<i>(in million Baht)</i>					
Domestic						
Commercial banks	14	4,600	4,614	2	13,893	13,895
Finance, securities and credit foncier companies	858	1,500	2,358	504	1,000	1,504
Other financial institutions	631	-	631	422	150	572
Total domestic	1,503	6,100	7,603	928	15,043	15,971
Foreign						
US Dollar	144	1,268	1,412	800	-	800
Other currencies	6,191	-	6,191	6,203	-	6,203
Total foreign	6,335	1,268	7,603	7,003	-	7,003
Total domestic and foreign	7,838	7,368	15,206	7,931	15,043	22,974

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25 Borrowings

	Domestic	2011 Foreign	Total (in million Baht)	Domestic	2010 Foreign	Total
Floating rate notes	13,326	-	13,326	11,619	-	11,619
Bills of exchange	21,278	-	21,278	31,899	-	31,899
Private repo	692	-	692	-	-	-
Total	35,296	-	35,296	43,518	-	43,518

At 31 December 2011 and 2010, all borrowings were in Thai Baht with interest rates between 0.5% and 3.75% (2010: 0.5% and 2.0%).

26 Employee benefit obligations

	2011 (in million Baht)	2010 (in million Baht)
Statements of financial position obligations for:		
Post employment benefits		
Legal severance payment plan and gratuity plan	145	128
Statements of comprehensive income:		
Recognised in profit or loss		
Post employment benefits		
Legal severance payment plan and gratuity plan	22	120
Recognised in other comprehensive income		
As at 1 January	8	-
Actuarial (gain) losses recognised during the year	(3)	8
Cumulative actuarial losses recognised	5	8

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.

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Movement in the present value of the defined benefit obligations:

	2011	2010
	<i>(in million Baht)</i>	
Defined benefit obligations at 1 January	128	-
Expense recognised in profit or loss		
Transitional obligation recognised	-	102
Current service costs	17	13
Interest on obligation	5	5
Total	<u>22</u>	<u>120</u>
Benefits paid	(2)	-
Actuarial (gains) losses in other comprehensive income	(3)	8
Defined benefit obligations at 31 December	<u>145</u>	<u>128</u>

The expense is recognised in the following line item in the statements of comprehensive income:

	2011	2010
	<i>(in million Baht)</i>	
Other operating expenses		
Employee expenses	<u>22</u>	<u>120</u>

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2011	2010
	<i>(%)</i>	
Discount rate	3.8	3.8
Future average salary increases	2-12	1-10
Price inflation	3.5	3.5

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

27 Other liabilities

At 31 December 2011 and 2010, other liabilities consisted of:

	2011	2010
	<i>(in million Baht)</i>	
Accrued interest expense	206	97
Accrued expenses	695	849
Income tax payable	585	534
Others	1,272	1,313
Total	<u>2,758</u>	<u>2,793</u>

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28 Contingencies and commitments

At 31 December 2011 and 2010, contingencies and commitments were as follows:

	Local currency	2011 Foreign currency	Total amount (in million Baht)	Local currency	2010 Foreign currency	Total amount
Guarantees of loans	60	2	62	1	273	274
Other guarantees	11,803	6,118	17,921	11,241	9,529	20,770
Liabilities under unmatured import bills	5	1,517	1,522	16	1,686	1,702
Letters of credit	81	1,255	1,336	97	1,880	1,977
Unused credit lines of overdrafts and credit facilities	92,861	15,569	108,430	77,151	12,737	89,888
Total	104,810	24,461	129,271	88,506	26,105	114,611

The Branch is a party to financial instruments with off-financial reporting 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-financial reporting instruments.

The Branch takes collateral where it is considered necessary to support both on and off-financial reporting 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 2011, 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.

Long-term lease commitments

Type of lease agreement	Remaining period	2011 (in million Baht)
Building and service lease agreements	1 January 2012 – 31 January 2014	12
Vehicle lease agreements	1 January 2012 – 31 October 2014	24
		36

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Type of lease agreement	Remaining period	2010 (in million Baht)
Vehicle lease agreements	1 January 2011 - 31 August 2013	<u><u>5</u></u>

29 Interest income

Interest income included in profit or loss for the years ended 31 December 2011 and 2010 consisted of:

	2011 (in million Baht)	2010 (in million Baht)
Interbank and money market items	1,990	732
Investments and trading transactions	193	174
Investments in debt securities	596	360
Loans	1,834	1,244
Total interest income	<u><u>4,613</u></u>	<u><u>2,510</u></u>

30 Interest expense

Interest expense included in profit or loss for the years ended 31 December 2011 and 2010 consisted of:

	2011 (in million Baht)	2010 (in million Baht)
Deposits	431	180
Interbank and money market items	589	707
Contribution to Deposit Protection Agency	183	162
Borrowings	1,004	207
Total interest expense	<u><u>2,207</u></u>	<u><u>1,256</u></u>

31 Net fees and service income

Net fees and service income included in profit or loss for the years ended 31 December 2011 and 2010 consisted of:

	2011 (in million Baht)	2010 (in million Baht)
Fees and service income		
- Acceptances, aval and guarantees	106	110
- Others	783	605
Total fees and service income	889	715
Fees and service expenses	(177)	(138)
Fees and service income, net	<u><u>712</u></u>	<u><u>577</u></u>

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32 Gain on trading and foreign exchange transactions

Gain on trading and foreign exchange transactions included in profit or loss for the years ended 31 December 2011 and 2010 consisted of:

	2011	2010
	<i>(in million Baht)</i>	
Gain (loss) on trading and foreign exchange transactions		
- Foreign currencies and foreign currency related derivatives	1,656	1,535
- Interest rate related derivatives	(601)	(72)
- Debt instruments	290	509
- Equity securities	-	(4)
Total	1,345	1,968
Gain (loss) on hedging transactions	3	(2)
Total	1,348	1,966

33 Gain (loss) on investments

Gain (loss) on investments presented in profit or loss for the years ended 31 December 2011 and 2010 consisted of:

	2011	2010
	<i>(in million Baht)</i>	
Gain (loss) on sales of available-for-sale investments	(1)	4
Total	(1)	4

34 Reversal of impairment loss of loans

Reversal of impairment loss of loans included in profit or loss for the years ended 31 December 2011 and 2010 consisted of:

	2011	2010
	<i>(in million Baht)</i>	
Loans to customers	(143)	(102)
Total	(143)	(102)

35 Employee expenses

Employee expenses included in profit or loss for the years ended 31 December 2011 and 2010 consisted of:

	2011	2010
	<i>(in million Baht)</i>	
Wages, salaries and bonus	633	520
Post employment benefits - defined benefit plans	12	55
Post employment benefits - defined contribution plans	29	22
Others	95	79
Total	769	676

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36 Other expenses

Other expenses for the years ended 31 December 2011 and 2010 consisted of:

	2011	2010
	<i>(in million Baht)</i>	
Head office expenses	363	375
Others	280	258
Total	643	633

37 Income tax expense

Income tax expense included in profit or loss for the years ended 31 December 2011 and 2010 consisted of:

	2011	2010
	<i>(in million Baht)</i>	
Current tax expense		
Current year	1,094	855
Deferred tax expense		
Movements in temporary differences	31	(4)
Income tax reduction - deferred	26	-
Total income tax expense	1,151	851
<i>Attributable to:</i>		
- Income tax expense from continuing operations	936	688
- Income tax expense from discontinued operation	215	163

Income tax expense included in other comprehensive income for the years ended 31 December 2011 and 2010 consisted of:

	Before tax	2011 Tax (expense) benefit	After tax	Before tax	2010 Tax (expense) benefit	After tax
	<i>(in million Baht)</i>					
Available-for-sale investments	108	(19)	89	(31)	10	(21)
Defined benefit plans						
actuarial gains (losses)	3	(1)	2	(8)	2	(6)
Others	18	(2)	16	14	-	14
Total	129	(22)	107	(25)	12	(13)

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Reconciliation of effective tax rate

		2011		2010
	(%)		(%)	
	Rate	(in million Baht)	Rate	(in million Baht)
Net profit		2,427		1,849
Total income tax expense		1,151		851
Profit before total income tax expense		3,578		2,700
Income tax using the Thai corporation tax rate	30.0	1,073	30.0	810
Expenses not deductible for tax purposes	1.5	52	1.5	41
Income tax reduction – deferred	0.7	26	-	-
Total	32.2	1,151	31.5	851

Income tax reduction - deferred

On 11 October 2011, the Cabinet passed a resolution regarding tax measures to increase Thailand's competitiveness and approved the reduction of the corporate income tax rate from 30% to 23% of net taxable profit for the accounting period 2012 which ends on or after 31 December 2012 and to 20% of net taxable profit for the accounting period which begins on or after 1 January 2013 and onwards.

In order to give effect to the above Cabinet resolution, the Government has issued a Royal Decree under the Revenue Code regarding the Reduction and Exemption in Income Taxes (No. 530) B.E. 2554 to reduce the corporate income tax rate for the three accounting periods 2012, 2013 and 2014; from 30% to 23% for the accounting period 2012 which begins on or after 1 January 2012 and to 20% for the following two accounting periods 2013 and 2014 which begin on or after 1 January 2013 and 2014, respectively. It is understood that the Government will proceed to amend the law in order to maintain the corporate income tax rate at not higher than 20% for the accounting period 2015 which begins on or after 1 January 2015 and onwards in order to give full effect to the Cabinet resolution.

Such announcement on the reduction of income tax rate has an impact on the measurement of deferred tax assets and deferred tax liabilities since Thai Accounting Standard No. 12 Income Taxes paragraph 47 states that deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

The Federation of Accounting Professions has considered this matter and has resolved that the substantively enacted tax rates which should be applied in measuring deferred tax assets and liabilities shall be the reduced rates as approved by the Cabinet; i.e. 23% shall be applied for the accounting period 2012 and 20% shall be applied for accounting periods 2013 onwards.

38 Related parties

For the purposes of these financial statements, parties are considered to be related to the Branch if the Branch has the ability, directly or indirectly, to control or joint control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Branch and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

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Relationships with significant related parties were as follows:

Name of entities	Country of incorporation	Nature of relationships
HSBC Holdings plc.	England	Ultimate parent company of the Head Office
HBAP	Hong Kong	Head Office and other branches
Other HSBC Group entities		
HSBC Bank plc.	England	HSBC Holding plc's subsidiary
HSBC Bank USA, N.A.	United States	HSBC Holding plc's subsidiary
HSBC Private Banking Holdings (Suisse) S.A.	Switzerland	HSBC Holding plc's subsidiary
HSBC Trinkaus & Burkhardt AG	Germany	HSBC Holding plc's subsidiary
HSBC Bank Australia Limited	Australia	HSBC Holding plc's subsidiary
HSBC Bank Malaysia Berhad	Malaysia	HSBC Holding plc's subsidiary
HSBC Bank (China) Company Limited	People's Republic of China	HSBC Holding plc's subsidiary
HSBC Bank Canada	Canada	HSBC Holding plc's subsidiary
HSBC Bank Mauritius Limited	Mauritius	HSBC Holding plc's subsidiary
HSBC Bank (Vietnam) Limited	Vietnam	HSBC Holding plc's subsidiary
Key management personnel	Thailand	Persons having authority and responsibility for planning, directing and controlling the activities of the Branch, directly or indirectly. The Branch's key management personnel consisted of: <ul style="list-style-type: none"> - Chief Executive Officer - Chief Financial Officer - Chief Technology and Services Officer - Chief Risk Officer - Head of Global Market - Head of Global Banking - Head of Commercial Banking - Head of Retail Banking and Wealth Management - Head of Trade and Supply Chain - Head of Legal and Compliance - Head of Communications - Head of Human Resources

The pricing policies for particular types of transactions are explained further below:

Transactions	Pricing policies
Interest	Based on market rate
Services	Contractually agreed price
Derivatives	Based on market price

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Significant transactions for the years ended 31 December 2011 and 2010 with the related parties were as follows:

	2011 (in million Baht)	2010
HBAP		
Fee and commission income	86	41
Interest expense on inter-office borrowing	35	47
Fee and commission expense	59	41
Other income	2	3
Head office expenses	836	683
Other expenses	14	7
Other HSBC Group entities		
Fee and commission income	52	63
Interest expense on inter-office borrowing	1	1
Fee and commission expense	15	11
Other expenses	30	29
Key management personnel		
Key management personnel compensation		
Short-term employee benefits	161	141
Post-employment benefits	8	12
Share-based payments	7	5
Total key management personnel compensation	<u>176</u>	<u>158</u>

The Branch has not paid any benefits to its key management personnel other than those in the normal course of business such as salary and bonuses.

As at 31 December 2011 and 2010, significant balances with related parties consisted of:

	2011 (in million Baht)	2010
<i>Balance of inter-office accounts with head office and other branches abroad</i>		
HBAP		
Nostro accounts	(55)	(33)
Vostro accounts	300	368
Borrowings	12,772	17,156
Accrued expenses	858	660
Other payables	13	-
Other receivables	(3)	-
Total	<u>13,885</u>	<u>18,151</u>
<i>Interbank and money market items (assets)</i>		
Other HSBC Group Entities		
HSBC Bank plc	38	23
HSBC Bank Australia Limited	9	3
HSBC Bank Canada	2	5
HSBC Bank Malaysia Berhad	1	1
Total	<u>50</u>	<u>32</u>

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	2011	2010
	<i>(in million Baht)</i>	
<i>Interbank and money market items (liabilities)</i>		
Other HSBC Group entities		
HSBC Bank USA, N.A.	177	854
HSBC Bank plc.	83	468
HSBC Private Banking Holdings (Suisse) S.A.	323	273
HSBC Bank Mauritius Limited	263	20
HSBC Bank Malaysia Berhad	86	220
HSBC Bank (Vietnam) Limited	153	1
HSBC Bank Australia Limited	53	119
HSBC Trinkaus & Burkhardt AG	11	55
Others	93	84
Total	1,242	2,094

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

Significant agreements with related parties

Service agreement

The Branch entered into a Services Agreement with the Head Office relating to the provision of certain management and other services to the Branch by the Head Office. The fees payable by the Branch to the Head Office under the Services Agreement are based on an allocation of relevant actual costs.

Outsourcing services

The Branch entered into service agreements with related parties for certain banking operation, financial processing activities and information technology support. The fee is charged at the market rate.

39 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 expected to become effective for annual financial periods beginning on or after 1 January in the year indicated in the following table.

TFRS	Topic	Year effective
TAS 20	Accounting for Government Grants and Disclosures of Government Assistance	2013
TAS 21 (revised 2009)	The Effects of Changes in Foreign Exchange Rates	2013

Management expects to adopt and apply these new TFRS in accordance with the FAP's announcement and has made a preliminary assessment of the potential initial impact on the Branch's financial statements of those new standards assessed to have the greatest potential impact on the financial statements in the period of initial application. These standards are as follows:

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TAS 20 - Accounting for government grants and disclosures of government assistance

Management is of the opinion that the adoption of TAS 20 from 1 January 2013 will not have a significant impact on the Branch's financial statements.

TAS 21 (revised 2009) - The effects of changes in foreign exchange rates

The principal change introduced by TAS 21 is the introduction of the concept of functional currency, which is defined as the currency of the primary economic environment in which the entity operates. TAS 21 requires the entity to determine its functional currency and translate foreign currency items into its functional currency, reporting the effects of such translation in accordance with the provisions of TAS 21. Foreign currencies are defined by TAS 21 as all currencies other than the entity's functional currency.

Management has determined that the functional currency of the Branch is Thai Baht. Accordingly, the adoption of TAS 21 from 1 January 2013 is not expected to have a significant impact on the Branch's reported assets, liabilities or retained earnings.

40 Reclassification of accounts

Financial statements as at 31 December 2010 have been reclassified to be presented for comparative purpose in order to comply with new and revised TFRS and BOT notification number Sor Nor Sor 11/2553, directive dated 3 December 2010, regarding "The preparation and announcement of the financial statements of commercial banks and holding companies which are parent company of group of companies offering financial services".