

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

Financial statements for the year ended
31 December 2012
and
Independent Auditor's Report



KPMG Phoomchai Audit Ltd.

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Independent Auditor's Report

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

I have audited the accompanying financial statements of The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch ("the Bangkok Branch") which comprise the statement of financial position as at 31 December 2012, the statement of comprehensive income, changes in accounts with head office and other branches of the same juristic person and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Bangkok Branch is an operating segment of The Hongkong and Shanghai Banking Corporation Limited which is not a separately incorporated legal entity. The accompanying financial statements have been prepared from the records of the Bangkok Branch and reflect only transactions recorded locally.

Management's Responsibility for the Financial Statements

Management of the Bangkok Branch is responsible for the preparation and fair presentation of these financial statements in accordance with Thai Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Thai Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bangkok Branch's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bangkok Branch's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.



Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the assets used in, and liabilities arising out of The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch, as at 31 December 2012, the financial performance and cash flows for the year then ended of The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch in accordance with Thai Financial Reporting Standards.




Chanchai S.

(Chanchai Sakulkoedsin)
Certified Public Accountant
Registration No. 6827

KPMG Phoomchai Audit Ltd.
Bangkok
18 March 2013

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Statement of financial position

Assets	Note	31 December	
		2012	2011
		<i>(in thousand Baht)</i>	
Cash		103,531	123,635
Interbank and money market items, net	8, 39	77,140,355	90,321,596
Claims on security		-	2,719,352
Derivative assets	9	22,509,995	27,324,927
Investments, net	10	56,175,775	41,950,342
Loans to customers and accrued interest receivables, net	11		
Loans to customers		34,473,650	41,829,368
Accrued interest receivables		130,264	100,173
Total loans to customers and accrued interest receivables		34,603,914	41,929,541
Less deferred revenue		(8,451)	(4,695)
Less allowance for doubtful accounts	12	(917,033)	(1,102,946)
Total loans to customers and accrued interest receivables, net		33,678,430	40,821,900
Customer liabilities under acceptances		91,815	56,276
Properties foreclose	13	78,470	15,360
Leasehold improvements and equipment, net	14	32,619	65,046
Intangible asset, net	15	4,138	9,789
Leasehold right for land and buildings, net	16	202,564	488,855
Deferred tax assets, net	17	161,122	61,315
Assets classified as held for sale, net	19	-	13,108,922
Other assets	20	1,664,645	524,673
Total assets		191,843,459	217,591,988

 Neeranuch Upaphattavanij <i>Chief Financial Officer</i> <i>Thailand</i>	 Tan Siew Meng <i>Chief Executive Officer</i> <i>Thailand</i>
 Pornthip Junpiti <i>Manager Financial Report</i> <i>Thailand</i>	

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

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Statement of financial position

Liabilities and accounts with head office and other branches abroad of the same juristic person	<i>Note</i>	31 December	
		2012	2011
		<i>(in thousand Baht)</i>	
<i>Liabilities</i>			
Deposits	22	95,571,774	82,918,630
Interbank and money market items	23, 39	14,847,109	15,206,177
Liabilities payable on demand		4,358,278	3,215,700
Liabilities to deliver security		-	2,719,352
Derivative liabilities	9	22,375,040	28,293,689
Debt issued and borrowings	24	16,038,573	35,296,489
Bank liabilities under acceptances		91,815	56,276
Employee Benefit Obligation	25, 39	117,223	145,054
Provisions	26	308,344	438
Liabilities classified as held for sale	19	-	18,109,486
Other liabilities	27	3,384,886	2,758,349
Total liabilities		157,093,042	188,719,640
<i>Accounts with head office and other branches of the same juristic person</i>			
Funds brought in to maintain assets under the Act	7	11,648,605	11,648,605
Balance of inter-office accounts with head office and other branches of the same juristic person	39	14,795,490	13,884,847
Other components of accounts with head office and other branches of the same juristic person		203,253	97,750
Retained earnings		8,103,069	3,241,146
Total accounts with head office and other branches of the same juristic person		34,750,417	28,872,348
Total liabilities and accounts with head office and other branches of the same juristic person		191,843,459	217,591,988

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

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Statement of comprehensive income

		For the year ended 31 December	
	<i>Note</i>	2012	2011
		<i>(in thousand Baht)</i>	
Continuing operations			
Interest income	30	5,406,541	4,927,113
Interest expense	31, 39	2,742,329	2,584,576
Net interest income		2,664,212	2,342,537
Fees and service income		882,248	874,919
Fees and service expenses		169,598	176,538
Net fees and service income	32, 39	712,650	698,381
Gain on trading and foreign exchange transactions	33	2,132,169	1,348,230
Net loss on investments	34	-	(1,293)
Other operating income		8,955	7,302
Total operating income		5,517,986	4,395,157
Other operating expenses			
Employee expenses	36	844,456	769,115
Premises and equipment expenses		596,390	192,734
Taxes and duties		65,869	66,354
Other expenses	37, 39	607,380	642,599
Total other operating expenses		2,114,095	1,670,802
Bad debts, allowance for doubtful accounts and impairment loss (reversal)	35	(265,117)	(143,002)
Operating profit before income tax expense from continuing operations		3,669,008	2,867,357
Income tax expense	38	(782,330)	(935,599)
Net profit from continuing operations		2,886,678	1,931,758
Discontinued operation			
Profit from discontinued operation	18	1,975,245	496,031
Net profit		4,861,923	2,427,789
Other comprehensive income			
Gains on remeasurement of available-for-sale investments		118,813	107,952
Actuarial gains (losses)	25	(3,597)	3,480
Other reserves		7,707	18,003
Income tax for other comprehensive income		(17,420)	(21,714)
Total other comprehensive income		105,503	107,721
Total comprehensive income		4,967,426	2,535,510

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

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Statement of changes in accounts with head office and other branches abroad of the same juristic person

			Net balance of				
			Inter-office	Other components of accounts with head			
			accounts with	office and other branches of the			
			head office	same juristic person			
			and other	Gains (losses) on			
			branches of the	remeasurement of			
			same juristic	available-for-sale	Retained		
			person	investments	earnings	Total	
				Others			
				(in thousand Baht)			
Balance at 1 January 2011		10,348,605	18,150,866	(67,604)	57,633	2,113,357	30,602,857
Comprehensive income for the year							
Net profit		-	-	-	-	2,427,789	2,427,789
Other comprehensive income, net of income tax							
Gains on remeasurement of available-for-sale investments		-	-	89,334	-	-	89,334
Actuarial gains	25	-	-	-	2,102	-	2,102
Others		-	-	-	16,285	-	16,285
Total other comprehensive income, net of income tax		-	-	89,334	18,387	-	107,721
Total comprehensive income		-	-	89,334	18,387	2,427,789	2,535,510
Increase in capital fund		1,300,000	-	-	-	-	1,300,000
Movement in balance of inter-office accounts with head office							
and other branches of the same juristic person		-	(4,266,019)	-	-	-	(4,266,019)
Profit remittance to head office		-	-	-	-	(1,300,000)	(1,300,000)
Balance at 31 December 2011 and 1 January 2012		11,648,605	13,884,847	21,730	76,020	3,241,146	28,872,348
Comprehensive income for the year							
Net profit		-	-	-	-	4,861,923	4,861,923
Other comprehensive income, net of income tax							
Gains on remeasurement of available-for-sale investments		-	-	102,387	-	-	102,387
Actuarial losses	25	-	-	-	(3,021)	-	(3,021)
Others		-	-	-	6,137	-	6,137
Total other comprehensive income, net of income tax		-	-	102,387	3,116	-	105,503
Total comprehensive income		-	-	102,387	3,116	4,861,923	4,967,426
Movement in balance of inter-office accounts with head office							
and other branches of the same juristic person		-	910,643	-	-	-	910,643
Balance at 31 December 2012		11,648,605	14,795,490	124,117	79,136	8,103,069	34,750,417

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

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Statement of cash flows

	For the year ended 31 December	
	2012	2011
	<i>(in thousand Baht)</i>	
<i>Cash flows from operating activities</i>		
Operating profit before income tax expenses	6,204,131	3,578,401
<i>Adjustments to reconcile profit from operations before income tax expense to cash received (paid) from operating activities</i>		
Depreciation and amortisation	54,207	72,296
Bad debt and doubtful accounts (reversal)	(286,756)	(24,330)
Loss on impairment of leasehold right	253,832	-
Unrealised losses (gains) on revaluation of trading investment	56,788	(79,264)
Losses (gains) on disposal of equipment	20,317	(1,923)
Unrealised (gains) losses on exchange	(624,435)	186,157
Unrealised gains on derivative assets and liabilities	(1,083,804)	(345,568)
Provisions for contingent liabilities	21,639	149
Increase in other reserves	10,150	10,473
Net interest income	(3,154,190)	(4,213,760)
Proceeds from interest income	5,820,458	6,898,492
Interest paid	(2,884,971)	(2,719,803)
Income tax paid	(1,653,486)	(1,042,620)
Profit from operations before changes in operating assets and liabilities	2,753,880	2,318,700
<i>Decrease (increase) in operating assets</i>		
Interbank and money market items	13,106,717	12,651,924
Trading investment	(6,892,095)	(7,069,734)
Loans to customers	7,288,424	4,111,836
Properties foreclose	(63,110)	(15,360)
Assets classified as held for sale	13,108,922	(13,108,922)
Other assets	(951,562)	1,883,413
<i>Increase (decrease) in operating liabilities</i>		
Deposits	13,458,321	12,495,826
Interbank and money market items	(359,066)	(7,774,556)
Liabilities payable on demand	1,142,578	769,880
Debt issued and borrowings	(19,257,916)	(8,221,183)
Employee benefit obligations	(31,429)	19,824
Provisions	286,269	-
Liabilities classified as held for sale	(18,109,486)	18,109,486
Other liabilities	884,022	(190,266)
Net cash provided by operating activities	6,364,469	15,980,868

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

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Statement of cash flows

For the year ended 31 December

2012 2011

(in thousand Baht)

Cash flows from investing activities

Increase in available-for-sale investments	(7,291,228)	(11,646,155)
Purchases of equipment	(4,821)	(44,929)
Proceeds from sales of equipment	833	3,774
Net cash used in investing activities	(7,295,216)	(11,687,310)

Cash flows from financing activities

Funds brought in to maintain assets under the Act	-	1,300,000
Profit remitted to head office	-	(1,300,000)
Increase (decrease) in net balance of inter-office accounts with head office and other branches of the same juristic person	910,643	(4,266,019)
Net cash provided by (used in) financing activities	910,643	(4,266,019)

Net (decrease) increase in cash	(20,104)	27,539
Cash at 1 January	123,635	96,096
Cash at 31 December	103,531	123,635

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

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

Notes to the financial statements

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 the Thai language statutory financial statements, and were approved and authorised for issue by the management of The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch (“the Branch”) on 18 March 2013.

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 corporate customers.

2 Basis of preparation of the financial statements

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.

(a) Statement of compliance

The financial statements are prepared in accordance with Thai Financial Reporting Standards (“TFRS”); guidelines promulgated by the Federation of Accounting Professions (“FAP”); and 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”.

As at 31 December 2012, the FAP had issued a number of 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 40.

(b) 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 and available-for-sale financial assets are measured at fair value

(c) 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.

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Notes to the financial statements

(d) *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:

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3 **Change in accounting estimate**

Credit Valuation Adjustment/Debit Valuation Adjustment Methodology

The Group, comprising HSBC Holdings plc., the ultimate parent company of the Head Office, and its subsidiaries, calculates a separate credit valuation adjustment (“CVA”) and debit valuation adjustment (“DVA”) for each Group legal entity, and within each entity for each counterparty to which the entity has exposure.

The Group calculates the CVA by applying the probability of default (“PD”) of the counterparty conditional on the non-default of the Group, to the expected positive exposure of the Group to the counterparty, and multiplying the result by the loss expected in the event of default. Conversely, the Group calculates the DVA by applying the PD of the Group, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to the Group, and multiplying by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

As a result of changing market practices in response to regulatory and accounting changes, as well as general market developments, the Group revised its methodology for estimating the CVA for derivatives at 31 December 2012. Previously, the PD used in the CVA calculation was based on the Group’s internal credit rating for the counterparty taking into account how credit ratings may deteriorate over the duration of the exposure based on historical rating transition matrices. The revised Methodology maximises the use of the PDs based on market-observable data, such as credit default swap (“CDS”) spreads. Where CDS spreads are not available, PDs are estimated having regard to market practice, considering relevant data including both CDS indices and historical rating transition matrices. In addition, the Group aligned its methodology for estimating the DVA to be consistent with that applied for CVA as at 31 December 2012. Historically, the Group considered that a zero spread was appropriate in respect of own credit risk and consequently did not adjust derivative liabilities for its own credit risk.

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Notes to the financial statements

The Branch has applied the revised methodology prospectively from 31 December 2012. At 31 December 2012, the effect of the changes in fair value estimates as a result of the revisions to methodology was to reduce derivative liabilities of the Branch by Baht 542 million and to reduce derivative assets of the Branch by Baht 200 million, resulting in a net amount of Baht 342 million in gain on trading and foreign exchange transactions in the statement of comprehensive income. It is impracticable to estimate the effect of the changes in fair value estimates on future periods.

For most products, to calculate the expected positive exposure to a counterparty, the Group uses a simulation methodology to incorporate the range of potential exposures across the portfolio of transactions with the counterparty over the life of an instrument. The simulation methodology includes credit mitigants such as counterparty netting agreements and collateral agreements with the counterparty. A standard loss given default assumption of 60% is generally adopted for developed market exposures, and 75% for emerging market exposures. Alternative loss given default assumptions may be adopted where both the nature of the exposure and the available data support this.

For certain types of exotic derivatives where the products are not currently supported by the simulation, or for derivative exposures in smaller trading locations where the simulation tool is not yet available, the Group adopts alternative methodologies. These may involve mapping to the results for similar products from the simulation tool or where such a mapping approach is not appropriate, a simplified methodology is used, generally following the same principles as the simulation methodology. The calculation is applied at a trade level, with more limited recognition of credit mitigants such as netting or collateral agreements than used in the simulation methodology described previously.

The methodologies do not, in general, account for 'wrong-way risk'. Wrong-way risk arises where the underlying value of the derivative prior to any CVA is positively correlated to the probability of default of the counterparty. Where there is significant wrong-way risk, a trade-specific approach is applied to reflect the wrong-way risk within the valuation.

4 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) 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.

(b) Cash

Cash consists of cash on hand and cash on collection.

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Notes to the financial statements

(c) Investments

Investments in debt securities and equity securities

Debt securities and marketable equity securities that the Branch intends to hold for a short period of time in order to take advantage of anticipated changes in the underlying market value are classified as being held-for-trading investments and stated at fair value. Gains and losses on remeasuring investments are recognised in profit or loss.

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

Debt securities and marketable equity securities, other than those securities held for trading or intended to be held to maturity, are classified as available-for-sale investments. Available-for-sale investments are, subsequent to initial recognition, stated at fair value, and changes therein, other than impairment losses and foreign currency differences on available-for-sale monetary items, are recognised directly in the accounts with head office and other branches of the same juristic person. 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 a separate component of the accounts with head office and other branches of the same juristic person is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

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

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

Disposal of investments

On disposal of an investment, the difference between net disposal proceeds and the carrying amount together with the associated cumulative gain or loss that was reported in a separate component of the accounts with head office and other branches of the same juristic person is recognised in profit or loss.

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

Investments in receivables

Investments in receivables are stated at acquisition cost less impairment losses.

(d) Loan to customers

Loan to customers 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.

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Notes to the financial statements

(e) 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.

The BoT has guidelines for establishing a minimum level of allowance for doubtful accounts, which is primarily determined by applying specified percentages to the different classifications of financing in conjunction with the consideration of collateral valuation. Financing classifications are based principally on the period that a financing is past due. The Branch has set up, at a minimum, the allowance for doubtful accounts according to the BoT regulations.

With reference to the BoT's directive, the Branch has classified its loan portfolios into six categories, primarily based on the non-accrual period. For loans classified as pass and special-mention, the calculation of allowances for doubtful accounts is based on the regulatory minimum percentage requirement, taking into consideration the collateral value, where the collateral type and date of the latest appraisal are qualifying factors. For loans classified as sub-standard, doubtful and doubtful of loss, the allowance on these accounts will be set at 100 percent of the difference between the outstanding book value of the debt and the present value of future cashflows expected to be received or the expected proceeds from the disposal of collateral, in accordance with BoT criteria.

The allowance for doubtful accounts established during the year is charged as an expense in profit or loss.

Bad debts written off or recovered are recorded as charges or credit, respectively, to the allowance for doubtful accounts.

(f) Restructured loans

The Branch classified restructured loans 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.

(g) Properties foreclose

Properties foreclose are stated at the lower of the net book value of the loan at the time of foreclosure or the latest market value of the properties foreclose. Loss on impairment of properties for sale is recognised in profit or loss. Gain or loss on disposal of properties foreclose is recognised on such properties only when sold.

(h) Leasehold improvements and equipment

Recognition and measurement

Owned assets

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When major components of an item of leasehold improvements and equipment have different useful lives, they are accounted for as separate items.

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Notes to the financial statements

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 other income 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 assets. 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.

(i) 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 based on 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.

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(j) *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.

(k) *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 whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The impairment loss is recognised in profit or loss unless it reverses a previous revaluation credited to accounts with head office and other branches of the same juristic person, in which case it is charged to the accounts with head office and other branches of the same juristic person.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in the accounts with head office and other branches of the same juristic person and there is objective evidence that the value of the asset is impaired, the cumulative loss that had been recognised directly in the accounts with head office and other branches of the same juristic person is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss.

Calculation of recoverable amount

The recoverable amount of held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of the estimated future cash flows discounted at the original effective interest rate. Receivables with a short duration are not discounted.

The recoverable amount of available-for-sale financial assets is calculated by reference to the fair value.

The recoverable amount of non-financial assets is the greater of the assets' value in use and fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a financial asset is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised in profit or loss. For financial assets carried at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in other comprehensive income.

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Impairment losses recognised in prior periods in respect of other non-financial assets are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(I) 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.

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: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge) or (2) 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 accounts with head office and other branches of the same juristic person is retained in accounts with head office and other branches of the same juristic person 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 accounts with head office and other branches of the same juristic person is recognised in profit or loss immediately.

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(m) Employee benefits

Post employment benefits

The Branch operates a number of employee benefit plans as follows:

Defined contribution plan

A defined contribution plan is a post-employment benefit plan where the Branch pays fixed contributions into a separate entity (provident fund) 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.

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 pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Branch's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed by an actuary using the projected unit credit method.

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.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Branch has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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.

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" in accounts with head office and other branch of the same juristic person.

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(n) 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.

(o) 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.

(p) 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.

(q) 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 accounts with head office and other branches of the same juristic person or in other comprehensive income.

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 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 not recognised for the following temporary differences: the initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and differences relating to investments in subsidiaries and jointly-controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

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.

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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.

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, or on different tax entities, but the Branch intends to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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.

(r) *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.

(s) *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.

(t) *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.

5 Financial risk management

The Branch has following risks from financial instruments:

- Credit risk
- Market risk
- Liquidity risk

5.1 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.

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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.

5.2 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 accounts with head office and other branches of the same juristic person, 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 2012 and 2011 were as follows:

	2012					Total	Average 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>						
Financial assets							
Cash	-	-	-	-	104	104	-
Interbank and money market items, net	75,749	-	-	-	1,391	77,140	2.86
Derivative assets	-	-	-	-	22,510	22,510	-
Investments, net	11,639	23,231	20,094	992	220	56,176	3.13
Loans to customers interest receivable, net	27,430	4,866	1,114	142	126	33,678	4.27
Total financial assets	114,818	28,097	21,208	1,134	24,351	189,608	

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2012							Average
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non- interest bearing	Total	Interest Rate (% per annum)
<i>(in million Baht)</i>							
Financial liabilities							
Deposits	84,877	3,027	16	-	7,652	95,572	1.36
Interbank and money market items	8,168	1,000	-	-	5,679	14,847	2.37
Liabilities payable on demand	-	-	-	-	4,358	4,358	-
Derivative liabilities	-	-	-	-	22,375	22,375	-
Debt issued and borrowings	12,610	3,342	87	-	-	16,039	3.41
Total financial liabilities	105,655	7,369	103	-	40,064	153,191	
Difference of on-financial items, net	9,163	20,728	21,105	1,134	(15,713)	36,417	
2011							Average
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non- interest bearing	Total	Interest Rate (% per annum)
<i>(in million Baht)</i>							
Financial assets							
Cash	-	-	-	-	124	124	-
Interbank and money market items, net	88,351	-	-	-	1,971	90,322	3.01
Derivative assets	-	-	-	-	27,325	27,325	-
Investments, net	7,253	20,538	11,901	2,036	222	41,950	2.77
Loans to customers 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	29,788	200,543	
Financial liabilities							
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	-
Derivative liabilities	-	-	-	-	28,293	28,293	-
Debt issued and borrowings	29,416	3,728	2,069	83	-	35,296	3.06
Total financial liabilities	114,266	5,507	2,070	83	43,004	164,930	
Difference of on-financial items, net	16,726	19,854	10,088	2,161	(13,216)	35,613	

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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 Branch's 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 Value at Risk ("VaR").

As at 31 December 2012 and 2011, the Branch has the financial assets and liabilities denominated in the foreign currencies in Baht equivalent were as follows:

	2012					
	USD	Euro	Yen	Pound	Others	Total
	(in million Baht)					
Financial assets						
Cash	2	12	-	2	-	16
Interbank and money market items, net	553	130	-	11	34	728
Derivative assets	9,720	-	268	210	15	10,213
Loans to customers and accrued interest receivable, net	10,885	355	70	7	102	11,419
Total financial assets	21,160	497	338	230	151	22,376
Financial liabilities						
Deposits	12,348	323	3,546	1,379	117	17,713
Liabilities payable on demand	13	1	-	2	2	18
Derivative liabilities	1,316	255	1,490	27	15	3,103
Total financial liabilities	13,677	579	5,036	1,408	134	20,834
On-financial reporting items, net	(921)	173	(3,476)	(1,361)	17	(5,568)
Off-financial reporting items, net	8,404	(255)	(1,222)	183	-	7,110
	2011					
	USD	Euro	Yen	Pound	Others	Total
	(in million Baht)					
Financial assets						
Cash	3	3	-	3	1	10
Interbank and money market items, net	-	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
Liabilities payable on demand	6	1	-	2	2	11
Derivative liabilities	2,599	794	19,627	-	792	23,812
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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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.

5.3 Liquidity risk

Liquidity risk is the risk that the Branch either does not have sufficient financial resources available to meet the obligations as they fall due, or can only access these financial resources at excessive cost.

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.

A maturity analysis of financial assets and liabilities as at 31 December 2012 and 2011 was as follows:

	2012						
	At call	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No maturity	Total
	(in million Baht)						
Financial assets							
Cash	-	-	-	-	-	104	104
Interbank and money market items, net	1,681	75,459	-	-	-	-	77,140
Derivative assets	45	5,380	3,522	8,533	5,030	-	22,510
Investments, net	-	11,638	23,231	20,094	993	220	56,176
Loans to customers and accrued interest receivable, net	-	18,890	3,598	6,605	4,585	-	33,678
Total financial assets	1,726	111,367	30,351	35,232	10,608	324	189,608
Financial liabilities							
Deposits	76,366	16,163	3,027	16	-	-	95,572
Interbank and money market items	7,457	6,390	1,000	-	-	-	14,847
Liabilities payable on demand	4,358	-	-	-	-	-	4,358
Derivative liabilities	75	5,494	4,241	9,215	3,350	-	22,375
Debt issued and borrowings	-	844	1,448	5,321	8,426	-	16,039
Total financial liabilities	88,256	28,891	9,716	14,552	11,776	-	153,191
Liquidity, net	(86,530)	82,476	20,635	20,680	(1,168)	324	36,417

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	2011						Total
	At call	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No maturity	
	<i>(in million Baht)</i>						
Financial assets							
Cash	-	-	-	-	-	124	124
Interbank and money market items, net	1,840	88,482	-	-	-	-	90,322
Derivative assets	183	3,967	5,585	8,973	8,617	-	27,325
Investments, net	-	7,253	20,538	11,901	2,036	222	41,950
Loans to customers and accrued interest receivable, net	-	29,295	4,333	3,329	3,865	-	40,822
Total financial assets	2,023	128,997	30,456	24,203	14,518	346	200,543
Financial liabilities							
Deposits	72,611	9,528	779	1	-	-	82,919
Interbank and money market items	7,838	6,368	1,000	-	-	-	15,206
Liabilities payable on demand	3,216	-	-	-	-	-	3,216
Derivative liabilities	238	4,018	4,394	11,787	7,856	-	28,293
Debt issued and borrowings	-	18,187	1,630	6,797	8,682	-	35,296
Total financial liabilities	83,903	38,101	7,803	18,585	16,538	-	164,930
Liquidity, net	(81,880)	90,896	22,653	5,618	(2,020)	346	35,613

6 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.

As at 31 December 2012 and 2011, a summary of the carrying value and fair value of financial instruments was as follows:

	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
	<i>(in million Baht)</i>			
Financial assets				
Cash	104	104	124	124
Interbank and money market items, net	77,140	77,140	90,322	90,322
Derivative assets	22,510	22,510	27,325	27,325
Investments, net	56,176	56,176	41,950	41,950
Loans to customers and accrued interest receivables, net*	33,678	33,678	40,822	40,822
Total financial assets	189,608	189,608	200,543	200,543

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	2012		2011	
	Carrying value	Fair value (in million Baht)	Carrying value	Fair value
Financial liabilities				
Deposits	95,572	95,572	82,919	82,919
Interbank and money market items	14,847	14,847	15,206	15,206
Liabilities payable on demand	4,358	4,358	3,216	3,216
Derivative liabilities	22,375	22,375	28,294	28,294
Debt issued and borrowings	16,039	16,039	35,296	35,296
Total financial liabilities	153,191	153,191	164,931	164,931

* Loans to customers net of deferred revenue

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 and derivative are stated according to the Branch's accounting policies mentioned in Note 4.

The fair value of loans to customers and accrued interest receivable are considered to be materially consistent with carrying values as the majority of the loans are at market variable rates of interest and allowance for doubtful accounts are considered to materially reflect the credit risk inherent in the portfolio at the statement of financial position date.

Debt issued and borrowings which is the carrying amounts of short-term borrowings maturing within 90 days approximate their fair values and fair values of other debt issued and borrowings are estimated using discounted cash flow analyses based on the Branch's current borrowing rates for similar type of debt issued and borrowing arrangements.

7 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 2012 and 2011, can be summarised as follows:

	2012 (in million Baht)	2011 (in million Baht)
Assets maintained under Section 32	12,165	12,116
Sum of net capital for maintenance of assets under Section 32 and net balance of inter-office accounts		
Capital for maintenance of assets under Section 32	11,649	11,649
Net balance of inter-office accounts which the branch is the debtor (the creditor) to the head office and other branches of the same juristic person, the parent company and subsidiaries of the head office	15,090	14,032
Total	26,739	25,681
Capital Fund (in million Baht)	11,649	11,649
Capital adequacy ratio (%)	15.63	12.55

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As at 31 December 2012 and 2011, the Branch adopted the Standardised Approach for credit risk and operational risk and the Combined Approach between Standardised and Internal Models for market risk as approved by the Bank of Thailand and in accordance with the Bank of Thailand notification to calculate minimum capital requirements.

As at 31 December 2012 and 2011, the Branch met the minimum capital ratio requirements set down by the Bank of Thailand for total capital of 7.5%.

In accordance with the Bank of Thailand Notification No. Sor.Nor.Sor. 25/2552 dated 14 December 2009, Re: "Public Disclosure of Capital Maintenance for Commercial Banks", the Branch intends to disclose Capital Maintenance information as of 31 December 2012 within 4 months after the year end date as indicated in the notification through the Bank's website www.hsbc.co.th.

8 Interbank and money market items, net (assets)

	At call	2012 Term	Total	At call	2011 Term	Total
	(in million Baht)					
Domestic						
The Bank of Thailand and Financial Institutions						
Development Fund	396	42,100	42,496	1,446	74,638	76,084
Commercial banks	210	31,600	31,810	336	12,013	12,349
Specialised financial institutions	-	-	-	1	-	1
Other financial institutions	350	1,699	2,049	-	1,700	1,700
Add accrued interest receivable	-	65	65	-	131	131
Less allowance for doubtful accounts	(3)	(5)	(8)	-	-	-
Total domestic	953	75,459	76,412	1,783	88,482	90,265
Foreign						
US Dollar	553	-	553	-	-	-
Euro	131	-	131	28	-	28
Other currencies	44	-	44	29	-	29
Total foreign	728	-	728	57	-	57
Total domestic and foreign	1,681	75,459	77,140	1,840	88,482	90,322

9 Derivatives

9.1 Derivatives held for trading

As at 31 December 2012 and 2011, fair value and notional amount classified by type of risks:

Type of risk	Fair value		2012 Notional amount		Total
	Assets	Liabilities	Upto 1 year (in million Baht)	Over 1 year	
Exchange rate	12,982	11,382	730,044	245,843	975,887
Interest rate	9,336	10,943	1,340,101	1,463,733	2,803,834
Others					
- Equities	192	-	1,964	276	2,240
Total	22,510	22,325	2,072,109	1,709,852	3,781,961

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Type of risk	Fair value		2011		Total
	Assets	Liabilities	Upto 1 year (in million Baht)	Notional amount 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

As at 31 December 2012 and 2011, proportions of the notional amount of derivative transactions, classified by counterparties, consisted of:

Counterparty	2012	2011
	(%)	(%)
Financial institutions	55	52
Related parties	39	40
Third parties	6	8
Total	100	100

9.2 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 2012 and 2011, the fair value and notional amount of derivatives held for fair value hedging, classified by type of risk, consisted of:

	2012		Notional amount (in million Baht)	2011		Notional amount
	Assets	Liabilities		Assets	Liabilities	
Interest rate	-	50	1,149	-	71	1,149
Total	-	50	1,149	-	71	1,149

10 Investments, net

As at 31 December 2012 and 2011, the Branch classified investment types, as follows:

	2012	2011
	Fair value (in million Baht)	Fair value (in million Baht)
Trading investment		
Government and state enterprise securities	16,077	9,734
Private debt instruments	493	-
Total	16,570	9,734
Available-for-sale investment		
Government and state enterprise securities	38,784	31,994
Private debt instruments	602	-
Marketable equity shares - domestic	220	222
Total	39,606	32,216
Total investments, net	56,176	41,950

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As at 31 December 2012, investments classified as available-for-sale with market values of Baht 12,164 million (2011: Baht 12,116 million) and Baht 2,987 million (2011: Baht 2,023 million) were maintained as capital fund with the Bank of Thailand and collateralised to other parties under repurchase agreements, respectively.

As at 31 December 2012 and 2011, gain (loss) on remeasurement of available-for-sale investments as follows:

	2012	2011
	(in million Baht)	
Gain on investments:		
Debt securities	162	73
Equity securities	20	22
Loss on investments:		
Debt securities	(16)	(47)
Total	166	48
Less deferred tax	(42)	(26)
Net	124	22

11 Loans to customers and accrued interest receivables, net

11.1 Classified by type of loans

	2012	2011
	(in million Baht)	
Overdrafts	974	1,052
Loans	27,818	35,631
Bills	5,682	5,147
Less deferred revenue	(9)	(5)
Total loans to customers net from deferred revenue	34,465	41,825
Add accrued interest receivables	130	100
Total loans to customers net from deferred revenue and accrued interest receivables	34,595	41,925
Less allowance for doubtful accounts		
- BoT's minimum requirement		
- individual approach	(743)	(901)
- Allowance in excess	(174)	(202)
Total loans to customers and accrued interest receivables, net	33,678	40,822

11.2 Classified by currency and residency of debtors

	2012			2011		
	Domestic	Foreign	Total	Domestic	Foreign	Total
	(in million Baht)					
Baht	22,894	-	22,894	28,276	-	28,276
US Dollar	11,028	-	11,028	12,756	159	12,915
Other currencies	486	57	543	577	57	634
Total*	34,408	57	34,465	41,609	216	41,825

* Loans to customers net of deferred revenue

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11.3 Classified by type of business and loan classification

	2012					
	Pass	Special mention	Substandard	Doubtful	Doubtful of loss	Total
	<i>(in million Baht)</i>					
Agriculture and mining	112	-	-	-	-	112
Industrial and commercial	21,058	445	-	177	247	21,927
Property and construction	1,493	57	-	100	-	1,650
Infrastructure and service	10,240	81	-	-	-	10,321
Home mortgages	310	-	-	-	-	310
Others	134	-	8	-	3	145
Total*	33,347	583	8	277	250	34,465

* Loans to customers net of deferred revenue

	2011					
	Pass	Special mention	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

* Loans to customers net of deferred revenue

11.4 Loans classified by grade

	2012			
	Loans and accrued interest receivables	Net amount for set up allowance for doubtful accounts	Rate used for set up allowance for doubtful accounts	Allowance for doubtful accounts <i>(in million Baht)</i>
	<i>(in million Baht)</i>		<i>(%)</i>	
Allowance as per BoT's minimum requirement				
- Pass	33,475	31,868	1	317
- Special mention	585	540	2	11
- Substandard	8	1	100	1
- Doubtful	277	171	100	171
- Doubtful of loss	250	243	100	243
Total				743
Allowance in excess				174
Total *	34,595	32,823		917

* Loans to customers net of deferred revenue included accrued interest receivables

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		2011		
	Loans and accrued interest receivables	Net amount for set up allowance for doubtful accounts	Rate used for set up allowance for doubtful accounts	Allowance for doubtful accounts (in million Baht)
	(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				202
Total *	41,925	39,093		1,103

* Loans to customers net of deferred revenue included accrued interest receivables

11.5 Non-performing loans

As at 31 December 2012 and 2011 the Branch had non-performing loans gross (including financial institutions) based on the BoT notification are as follows:

	2012	2011
Non-performing loans, gross		
NPLs, gross (in million Baht)	535	1,015
Total loans used for NPLs ratio calculation ⁽¹⁾ (in million Baht)	110,214	143,679
Percentage of total loans ⁽²⁾ (%)	0.49	0.71

(1) Total loans used for NPL ratio calculation are loans to customers as presented in the statement of financial position and loans to financial institutions as included in inter-bank and money market items.

(2) The ratio of NPL Gross to total loans before allowance for doubtful accounts of non-performing loans.

As at 31 December 2012 and 2011 the Branch had non-performing loan net (including financial institutions) based on BoT notification are as follows:

	2012	2011
Non-performing loans, net		
NPLs, net (in million Baht)	10	75
Total loans used for NPLs net ratio calculation ⁽¹⁾ (in million Baht)	109,689	142,739
Percentage of total loans ⁽²⁾ (%)	0.01	0.05

(1) Total loans used for NPL ratio calculation are loans to customers as presented in the statements of financial position and loans to financial institutions as included in inter-bank and money market items after allowance for doubtful accounts of non-performing loans.

(2) The ratio of NPL net to total loans after allowance for doubtful accounts of non-performing loans.

As at 31 December 2012, specific provisions of Baht 525 million (2011: Baht 940 million) have been provided against the Branch's non-performing loans, being those classified as substandard, doubtful and doubtful of loss.

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12 Allowance for doubtful accounts

Movements in the allowance for doubtful accounts for loans to customers during the years ended 31 December 2012 and 2011 consisted of:

	2012				Doubtful of loss	Total
	Pass	Special mention	Substandard	Doubtful		
	<i>(in million Baht)</i>					
Balance at beginning of the year	406	10	-	333	354	1,103
Doubtful accounts charge	(20)	-	8	(59)	(224)	(295)
Bad debts recoveries	-	-	-	-	177	177
Bad debts written off	-	-	-	-	(58)	(58)
Movement in exchange rate	-	-	-	(7)	(3)	(10)
Movement to other grades	(5)	2	-	4	(1)	-
Balance at end of the year	381	12	8	271	245	917

	2011				Doubtful of loss	Total
	Pass	Special mention	Substandard	Doubtful		
	<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

13 Properties foreclose

As at 31 December 2012 and 2011, properties foreclose consisted of:

	2012			Ending balance
	Beginning balance	Additions	Disposals	
	<i>(in million Baht)</i>			
Assets acquired from debt repayment				
Immovable assets				
- Appraised by external appraiser	15	63	-	78
Total properties foreclose	15	63	-	78

	2011			Ending balance
	Beginning balance	Additions	Disposals	
	<i>(in million Baht)</i>			
Assets acquired from debt repayment				
Immovable assets				
- Appraised by external appraiser	-	15	-	15
Total properties foreclose	-	15	-	15

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14 Leasehold improvements and equipment, net

Changes in leasehold improvements and equipment during the year ended 31 December 2012 were as follows:

	Net book value 1 January 2012	Beginning balance	Cost		Ending balance (in million Baht)	Beginning balance	Accumulated depreciation		Ending balance	Net book value 31 December 2012
			Additions	Disposals			Depreciation	Disposals		
Leasehold improvements	1	317	-	-	317	316	1	-	317	-
Equipment	64	398	5	(184)	219	334	17	(165)	186	33
Total	65	715	5	(184)	536	650	18	(165)	503	33

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

	Net book value 1 January 2011	Beginning balance	Cost		Ending balance (in million Baht)	Beginning balance	Accumulated depreciation		Ending balance	Net book value 31 December 2011
			Additions	Disposals			Depreciation	Disposals		
Leasehold improvements	3	317	-	-	317	314	2	-	316	1
Equipment	55	405	44	(51)	398	350	33	(49)	334	64
Total	58	722	44	(51)	715	664	35	(49)	650	65

The gross amount of the Branch's fully depreciated leasehold improvements and equipment that was still in use as at 31 December 2012 amounted to Baht 469 million (2011: Baht 597 million).

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15 Intangible asset, net

Changes in intangible asset during the year ended 31 December 2012 were as follows:

	Net book value 1 January 2012	Beginning balance	Cost		Ending balance	Beginning balance (in million Baht)	Accumulated amortisation		Ending balance	Net book value 31 December 2012
			Additions	Disposals			Amortisation	Disposals		
Software license	10	174	-	(37)	137	164	3	(34)	133	4
Total	10	174	-	(37)	137	164	3	(34)	133	4

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

	Net book value 1 January 2011	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	14	207	1	(34)	174	193	5	(34)	164	10
Total	14	207	1	(34)	174	193	5	(34)	164	10

Amortisation presented in premises and equipment expenses in the statements of comprehensive income of the Branch for the year end 31 December 2012 amounted to Baht 3 million (2011: Baht 5 million).

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16 Leasehold right for land and buildings, net

	2012	2011
	<i>(in million Baht)</i>	
Cost	909	909
<i>Less</i> accumulated amortisation	(452)	(420)
<i>Less</i> loss on impairment	(254)	-
Net	203	489

17 Deferred tax assets, net

Deferred tax assets and liabilities determined after netting off are included in the statements of financial position as follows:

	2012	2011
	<i>(in million Baht)</i>	
Deferred tax assets	230	213
Deferred tax liabilities	(69)	(152)
Net	161	61

Movements in deferred tax assets and liabilities during the year ended 31 December 2012 and 2011 were as follows:

	At 1 January 2012	Charged/(credited) to		At 31 December 2012
		Profit or loss (note 38)	Other comprehensive income	
		<i>(in million Baht)</i>		
<i>Deferred tax assets</i>				
Allowance for doubtful accounts and provision for contingent liabilities	90	(47)	-	43
Provision for impairment	-	51	-	51
Others	123	14	(1)	136
Total	213	18	(1)	230
<i>Deferred tax liabilities</i>				
Investments	54	(15)	16	55
Deferred expenses	56	(56)	-	-
Borrowings and financial instruments	42	(28)	-	14
Total	152	(99)	16	69
Net	61	117	(17)	161

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	At 1 January 2011	Charged/(credited) to		At 31 December 2011
		Profit or loss (note 38)	Other comprehensive income	
		(in million Baht)		
Deferred tax assets				
Allowance for doubtful accounts and provision for contingent liabilities	124	(34)	-	90
Others	161	(35)	(3)	123
Total	285	(69)	(3)	213
Deferred tax liabilities				
Investments	20	15	19	54
Deferred expenses	43	13	-	56
Borrowings and financial instruments	82	(40)	-	42
Total	145	(12)	19	152
Net	140	(57)	(22)	61

18 Discontinued operation

During 2011, the Head Office decided to offer for sale the retail business of the Branch, comprising its entire retail segment (note 19). A sale and purchase agreement for a part of the retail segment was entered into on 20 January 2012 and the transaction was completed on 31 March 2012. Accordingly, this segment has been accounted for as a discontinued operation. 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 2012 and 2011 was as follows:

	2012	2011
	(in million Baht)	
Interest income	560	2,114
Interest expense	70	243
Net interest income	490	1,871
Fees and service income	250	862
Fees and service expenses	34	124
Net fees and service income	216	738
Other operating income	3,348	99
Total operating income	4,054	2,708
Other operating expenses	(1,569)	(1,878)
Bad debt and doubtful accounts (reversal)	50	(119)
Operating profit before income tax expense from discontinued operations	2,535	711
Income tax expense	(560)	(215)
Net profit from discontinued operations	1,975	496

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Cash flows provided by (used in) the discontinued operation during the years ended 31 December 2012 and 2011 were as follows:

	2012	2011
	(in million Baht)	
Net cash provided by (used in) operating activities	(3,052)	447
Net cash provided by (used in) financing activities	10,505	(421)
Net cash provided by discontinued operation	7,453	26

19 Disposal group held for sale

As at 31 December 2011, The retail business is presented as a disposal group held for sale and consisted of:

	2011
	(in million Baht)
<i>Assets of disposal group</i>	
Retail loans and accrued interest receivables	13,622
Less allowance for doubtful accounts	(513)
Total assets classified as held for sale, net	13,109
<i>Liabilities of disposal group</i>	
Deposits	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.

20 Other assets

At 31 December 2012 and 2011, other assets consisted of:

	2012	2011
	(in million Baht)	
Accrued income receivable	369	185
Marginal deposits	1,248	26
Others	48	314
Total	1,665	525

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21 Classified assets

As at 31 December 2012 and 2011, 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	2012 Loans to customers and accrued interest receivables		Properties for sale	Total
		Interbank and money market	Customers (in million Baht)		
Pass	56,176	75,814	33,475	78	165,543
Special mention	-	-	585	-	585
Sub-Standard	-	-	8	-	8
Doubtful	-	-	277	-	277
Doubtful of loss	-	-	250	-	250
	56,176	75,814	34,595	78	166,663

	Investments	2011 Loans to customers 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 are stated at fair value. As at 31 December 2012, investments classified as doubtful of loss according to the BoT's definition represented unrealised loss on revaluation of Baht 5 million (2011: Baht 28 million).

22 Deposits

22.1 Classified by type of deposits:

	2012 (in million Baht)	2011
Current	10,149	7,269
Saving	66,217	65,342
Term		
- Less than 6 months	18,247	10,000
- More than 6 months but less than 1 year	942	307
- 1 year and over	17	1
Total	95,572	82,919

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22.2 Classified by currency and residency of depositors:

	Domestic	2012 Foreign	Total (in million Baht)	Domestic	2011 Foreign	Total
Baht	76,140	1,719	77,859	54,579	1,585	56,164
US Dollar	11,157	1,191	12,348	21,467	607	22,074
Other currencies	3,841	1,524	5,365	4,461	220	4,681
Total	91,138	4,434	95,572	80,507	2,412	82,919

23 Interbank and money market items (liabilities)

	At call	2012 Term	Total (in million Baht)	At call	2011 Term	Total
Domestic						
Commercial banks	4	3,300	3,304	14	4,600	4,614
Specialised financial institutions	-	890	890	-	-	-
Finance, securities and credit foncier companies	699	3,200	3,899	858	1,500	2,358
Other financial institutions*	316	-	316	631	-	631
Total domestic	1,019	7,390	8,409	1,503	6,100	7,603
Foreign						
US Dollar	-	-	-	144	1,268	1,412
Other currencies	6,438	-	6,438	6,191	-	6,191
Total foreign	6,438	-	6,438	6,335	1,268	7,603
Total domestic and foreign	7,457	7,390	14,847	7,838	7,368	15,206

* Other financial institutions mean financial institutions which operate under the Interest on Loans of Finance Institution Act and apart from those listed above such as Finance company, Securities company, Credit foncier companies, Life insurance companies, cooperatives, the Federation of Savings and Credit Cooperatives of Thailand Limited and Credit Union League.

24 Debt issued and borrowings

	Domestic	2012 Foreign	Total (in million Baht)	Domestic	2011 Foreign	Total
Bills of exchange	2,243	-	2,243	21,278	-	21,278
Floating rate notes	13,796	-	13,796	13,326	-	13,326
Private repo	-	-	-	692	-	692
Total	16,039	-	16,039	35,296	-	35,296

At 31 December 2012, all borrowings were in Thai Baht with interest rates between 0.5% - 3.15% (2011: 0.5% - 3.75%).

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25 Employee benefit obligations

	2012	2011
	<i>(in million Baht)</i>	
Statements of financial position obligations for:		
Post employment benefits		
Legal severance payment plan and gratuity plan	<u>117</u>	<u>145</u>
Comprehensive income:		
Recognised in profit or loss		
Post employment benefits		
Legal severance payment plan and gratuity plan	<u>129</u>	<u>22</u>
Recognised in other comprehensive income		
Actuarial losses (gains) recognised during the year	<u>3</u>	<u>(3)</u>
Total	<u>132</u>	<u>19</u>

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

Legal severance payment plan

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

Gratuity plan

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

Movement in the present value of the defined benefit obligations:

	2012	2011
	<i>(in million Baht)</i>	
At 1 January	145	128
Expense recognised in profit or loss		
Current service costs	13	17
Interest cost on obligation	4	5
Curtailment loss	112	-
Benefits paid during the year	<u>(160)</u>	<u>(2)</u>
Actuarial losses (gains) in other comprehensive income	<u>3</u>	<u>(3)</u>
At 31 December	<u>117</u>	<u>145</u>

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The expense is recognised in profit or loss:

	2012 (in million Baht)	2011
Other operating expenses		
Employee expenses	17	22
Profit from discontinued operation	112	-
Total	129	22
Actuarial losses (gains) recognised in other comprehensive income, net of deferred tax:		
As at 1 January	5	8
Actuarial (gains) losses recognised during the year	3	(3)
Cumulative actuarial losses recognised	8	5

Principal actuarial assumptions at the reporting date:

	2012 (%)	2011
Discount rate	3.8	3.8
Future average salary increases	2-12	2-12
Price inflation	3.5	3.5

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

26 Provisions

	2012 (in million Baht)	2011
Provision as at 1 January	-	-
Provision made	308	-
Total	308	-

The above consists of the restructuring provision relating to disposal of retail portfolio and also includes provision for contingent liabilities.

27 Other liabilities

	2012 (in million Baht)	2011
Accrued interest expense	133	206
Accrued expenses	649	695
Income tax payable	391	585
Others	2,212	1,272
Total	3,385	2,758

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28 Contingencies and commitments

	Baht	2012 Foreign currency	Total amount (in million Baht)	Baht	2011 Foreign currency	Total amount
Guarantees of loans	1	248	249	60	2	62
Other guarantees	12,370	10,552	22,922	11,803	6,118	17,921
Liabilities under unmaturing import bills	2	1,902	1,904	5	1,517	1,522
Letters of credit	1	1,377	1,378	81	1,255	1,336
Unused credit lines of overdrafts and credit facilities	52,909	17,131	70,040	92,861	15,569	108,430
Total	65,283	31,210	96,493	104,810	24,461	129,271

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 2012, 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 Supreme 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	2012 (in million Baht)
Building and service lease agreements	1 January 2013 - 30 June 2013	3
Vehicle lease agreements	1 January 2013 - 31 December 2015	9
Equipment lease agreement	1 January 2013 - 31 December 2015	14
		26

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		2011
		(in million Baht)
Type of lease agreement	Remaining period	
Building and service lease agreements	1 January 2012 - 31 January 2014	22
Vehicle lease agreements	1 January 2012 - 31 October 2014	14
Equipment lease agreement	1 January 2012 - 31 January 2016	20
		56

29 The financial position and results of operations classified by domestic and foreign business

The Company does not present the financial position and results of operations classified by domestic and foreign business in the financial statements since the Company is engaged in only one domestic business in Thailand.

30 Interest income

	2012	2011
	(in million Baht)	
Interbank and money market items	2,431	3,254
Investments and trading transactions	680	193
Investments in debt securities	1,202	596
Loans	1,093	884
Total interest income	5,406	4,927

31 Interest expense

	2012	2011
	(in million Baht)	
Deposits	918	506
Interbank and money market items	411	589
Contribution to Deposit Protection Agency	447	224
Borrowings	966	1,265
Total interest expense	2,742	2,584

32 Net fees and service income

	2012	2011
	(in million Baht)	
Fees and service income		
- Acceptances, aval and guarantees	95	106
- Remittances	265	230
- Underwriting, management and consulting	76	147
- Custody	283	261
- Others	163	131
Total fees and service income	882	875
Fees and service expenses		
- Remittances	48	52
- Others	122	125
Total fees and service expenses	170	177
Fees and service income, net	712	698

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33 Gain on trading and foreign exchange transactions

	2012	2011
	<i>(in million Baht)</i>	
Gain (loss) on trading and foreign exchange transactions		
- Foreign currencies and foreign currency related derivatives	1,097	1,656
- Interest rate related derivatives	824	(601)
- Debt instruments	209	290
Total	2,130	1,345
Gain (loss) on hedging transactions	2	3
Total	2,132	1,348

34 Net loss on investments

	2012	2011
	<i>(in million Baht)</i>	
Loss on sales of available-for-sale investments	-	1
Total	-	1

35 Bad debts, allowance for doubtful accounts and impairment loss

	2012	2011
	<i>(in million Baht)</i>	
Loans to customers (reversal)	(287)	32
Provision for contingent liabilities	22	(175)
Total	(265)	(143)

36 Employee expenses

	2012	2011
	<i>(in million Baht)</i>	
Wages, salaries and bonus	683	633
Post employment benefits - defined benefit plans	15	12
Post employment benefits - defined contribution plans	32	29
Others	114	95
Total	844	769

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.

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37 Other expenses

	2012 (in million Baht)	2011
Expenses allocated from Head Office	194	363
Others	413	280
Total	607	643

38 Income tax expense

Income tax expense recognised in profit or loss

	Note	2012 (in million Baht)	2011
Current tax expense			
Current year		1,591	1,094
Adjustment for prior year (over)		(132)	-
		1,459	1,094
Deferred tax expense			
Movements in temporary differences	17	(147)	31
Income tax reduction - deferred	17	30	26
Total income tax expense		1,342	1,151
<i>Attributable to:</i>			
- Income tax expense from continuing operations		782	936
- Income tax expense from discontinued operation		560	215

Income tax expense recognised in other comprehensive income

	Before tax	2012 Tax (expense) benefit	Net of tax (in million Baht)	Before tax	2011 Tax (expense) benefit	Net of tax
Available-for-sale investments	118	(16)	102	108	(19)	89
Defined benefit plans actuarial gains (losses)	(3)	-	(3)	3	(1)	2
Others	8	(2)	6	18	(2)	16
Total	123	(18)	105	129	(22)	107

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Reconciliation of effective tax rate

		2012		2011
	(%)		(%)	
	Rate	(in million Baht)	Rate	(in million Baht)
Net profit		4,862		2,427
Total income tax expense		1,342		1,151
Profit before total income tax expense		6,204		3,578
Income tax using the Thai corporation tax rate	23.0	1,426	30.0	1,073
Expenses not deductible for tax purposes	0.3	18	1.5	52
Income tax reduction - deferred	0.5	30	0.7	26
Over provided in prior year	(2.1)	(132)	-	-
Total	21.7	1,342	32.2	1,151

Income tax reduction - deferred

Royal Decree No. 530 B.E. 2554 dated 21 December 2011 grants a reduction in 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 dated 11 October 2011 to increase Thailand's tax competitiveness.

39 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.

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
The Hongkong and Shanghai Banking Corporation Limited (HBAP)	Hong Kong	Head Office and other branches
Other HSBC Group entities		
HSBC Bank plc.	England	HSBC Holdings plc's subsidiary
HSBC Bank USA, N.A.	United States	HSBC Holdings plc's subsidiary
HSBC Private Banking Holdings (Suisse) S.A.	Switzerland	HSBC Holdings plc's subsidiary
HSBC Trinkaus & Burkhardt AG	Germany	HSBC Holdings plc's subsidiary
HSBC Bank Australia Limited	Australia	HSBC Holdings plc's subsidiary
HSBC Bank Malaysia Berhad	Malaysia	HSBC Holdings plc's subsidiary

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Name of entities	Country of incorporation	Nature of relationships
HSBC Bank (China) Company Limited	People's Republic of China	HSBC Holdings plc's subsidiary
HSBC Bank Canada	Canada	HSBC Holdings plc's subsidiary
HSBC Bank Mauritius Limited	Mauritius	HSBC Holdings plc's subsidiary
HSBC Bank (Vietnam) Limited	Vietnam	HSBC Holdings 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 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

Significant transactions for the years ended 31 December 2012 and 2011 with the related parties were as follows:

	2012 (in million Baht)	2011
HBAP		
Fee and commission income	105	86
Interest expense on inter-office borrowing	21	35
Fee and commission expense	30	59
Other income	8	2
Head office expenses	739	836
Other expenses	43	14
Other HSBC Group entities		
Fee and commission income	56	52
Interest expense on inter-office borrowing	1	1
Fee and commission expense	26	15
Other income	1	-
Other expenses	23	30

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	2012	2011
	<i>(in million Baht)</i>	
Key management personnel		
Key management personnel compensation		
Short-term employee benefits	146	161
Post-employment benefits	12	8
Share-based payments	5	7
Total key management personnel compensation	163	176

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 2012 and 2011, significant balances with related parties consisted of:

	2012	2011
	<i>(in million Baht)</i>	
<i>Balance of inter-office accounts with head office and other branches abroad of the same juristic person</i>		
HBAP		
Nostro accounts	(56)	(55)
Vostro accounts	828	300
Borrowings	13,325	12,772
Accrued expenses	730	858
Other payables	-	13
Other receivables	(32)	(3)
Total	14,795	13,885

Interbank and money market items (assets)

Other HSBC Group Entities

HSBC Bank USA, N.A.	553	-
HSBC Bank plc.	141	38
HSBC Bank Australia Limited	9	9
HSBC Bank Canada	6	2
HSBC Bank Malaysia Berhad	1	1
HSBC Bank (China) Company Limited	1	-
Total	711	50

Interbank and money market items (liabilities)

Other HSBC Group entities

HSBC Bank USA, N.A.	290	177
HSBC Bank plc.	76	83
HSBC Private Banking Holdings (Suisse) S.A.	586	323
HSBC Bank Mauritius Limited	4	263
HSBC Bank Malaysia Berhad	263	86
HSBC Bank (Vietnam) Limited	200	153
HSBC Bank Australia Limited	201	53
HSBC Trinkaus & Burkhardt AG	186	11
HSBC Bank Canada	3	-
Others	109	93
Total	1,918	1,242

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

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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.

40 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 21 (revised 2009)	The Effects of Changes in Foreign Exchange Rates	2013
TFRS 8	Operating Segments	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:

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 Branch'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.

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TFRS 8 - Operating segments

The principal change introduced by TFRS 8 is the introduction of the concept of disclosing information about the Branch's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers.

Management is of the opinion that the adoption of TFRS 8 from 1 January 2013 will not have a significant impact on the Branch's financial statements.

41 Reclassification of accounts

Certain accounts in the 2011 financial statements, which are included in the 2012 financial statements for comparative purposes, have been reclassified to conform to the presentation in the 2012 financial statements. These reclassifications were as follows:

	Before reclass.	2011 Reclass. (in million Baht)	After reclass.
<i>Statement of comprehensive income</i>			
<i>Income</i>			
Interest income	4,612	315	4,927
Fees and service income	889	(14)	875
Interest income - discontinued operation	2,429	(315)	2,114
Fees and service income - discontinued operation	848	14	862
		<u>-</u>	
<i>Expenses</i>			
Interest expense	2,207	377	2,584
Taxes and duties	142	(76)	66
Interest expense - discontinued operation	620	(377)	243
Other operating expenses - discontinued operation	1,802	76	1,878
		<u>-</u>	

The reclassifications have been made because, in the opinion of management, the new classification is more appropriate to the Bank's business.