

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

Financial statements for the year ended  
31 December 2013  
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 "Branch") which comprise the statement of financial position as at 31 December 2013, 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 notes, comprising a summary of significant accounting policies and other explanatory information. The Branch is a part 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.

#### *Management's Responsibility for the Financial Statements*

Management of the 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 entity'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 entity'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 present fairly, in all material respects, the assets used in, and liabilities arising out of, the Branch's operations in Thailand as at 31 December 2013, and its financial performance and cash flows in Thailand for the year then ended in accordance with Thai Financial Reporting Standards.

*Chanchai S.*

(Chanchai Sakulkoedsin)  
Certified Public Accountant  
Registration No. 6827

KPMG Phoomchai Audit Ltd.  
Bangkok  
17 February 2014

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

Assets	Note	31 December		1 January
		2013	2012	2012
			(Restated)	(Restated)
(in thousand Baht)				
Cash		56,381	103,531	123,635
Interbank and money market items, net	8, 27	58,640,478	77,140,355	90,321,596
Claims on security		3,031,923	-	2,719,352
Derivative assets	9	43,941,534	29,306,909	36,307,612
Investments, net	10	56,598,973	56,175,775	41,950,342
Loans to customers and accrued interest receivables, net	11			
Loans to customers		42,930,556	34,473,650	41,829,368
Accrued interest receivables		108,596	130,264	100,173
Total loans to customers and accrued interest receivables		43,039,152	34,603,914	41,929,541
Less deferred revenue		(4,770)	(8,451)	(4,695)
Less allowance for doubtful accounts	11.4, 12	(850,578)	(917,033)	(1,102,946)
Total loans to customers and accrued interest receivables, net		42,183,804	33,678,430	40,821,900
Customer liabilities under acceptances		3,209	91,815	56,276
Properties foreclosed	13	63,110	78,470	15,360
Leasehold improvements and equipment, net	14	36,912	32,619	65,046
Intangible asset, net		2,382	4,138	9,789
Leasehold right for land and buildings, net	15	188,238	202,564	488,855
Deferred tax assets, net	16	182,383	161,122	61,315
Assets classified as held for sale, net		-	-	13,108,922
Other assets	18	315,572	1,664,645	524,673
<b>Total assets</b>		<b>205,244,899</b>	<b>198,640,373</b>	<b>226,574,673</b>



**Neeranuch Upaphattavanij**  
*Chief Financial Officer*  
*Thailand Branch*



**Pornthip Junpiti**  
*Manager Financial Report*  
*Thailand Branch*



**Tan Siew Meng**  
*Chief Executive Officer*  
*Thailand Branch*

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	Note	31 December 2013	2012 (Restated)	1 January 2012 (Restated)
(in thousand Baht)				
<i>Liabilities</i>				
Deposits	20	84,212,010	95,571,774	82,918,630
Interbank and money market items	21, 27	13,006,641	14,847,109	15,206,177
Liabilities payable on demand		3,819,755	4,358,278	3,215,700
Liabilities to deliver security		3,031,923	-	2,719,352
Derivative liabilities	9	43,257,334	29,171,954	37,276,374
Debt issued and borrowings	22	14,550,021	16,038,573	35,296,489
Bank liabilities under acceptances		3,209	91,815	56,276
Employee benefit obligations	23	139,954	117,223	145,054
Provisions	24	218,029	308,344	438
Liabilities classified as held for sale		-	-	18,109,486
Other liabilities	25	6,038,816	3,384,886	2,758,349
<b>Total liabilities</b>		<b>168,277,692</b>	<b>163,889,956</b>	<b>197,702,325</b>
<i>Accounts with head office and other branches of the same juristic person</i>				
Net funds brought in to maintain assets under the Act	7	16,000,000	11,648,605	11,648,605
Net balance of inter-office accounts with head office and other branches of the same juristic person	27	17,833,034	14,795,490	13,884,847
Other components of accounts with head office and other branches of the same juristic person		149,248	203,253	97,750
Retained earnings		2,984,925	8,103,069	3,241,146
<b>Total accounts with head office and other branches of the same juristic person</b>		<b>36,967,207</b>	<b>34,750,417</b>	<b>28,872,348</b>
<b>Total liabilities and accounts with head office and other branches of the same juristic person</b>		<b>205,244,899</b>	<b>198,640,373</b>	<b>226,574,673</b>

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	
	Note	2013	2012
		(in thousand Baht)	
<b>Continuing operations</b>			
Interest income	29	4,716,402	5,406,541
Interest expense	27, 30	2,363,032	2,742,329
<b>Net interest income</b>		<b>2,353,370</b>	<b>2,664,212</b>
Fees and service income		941,905	882,248
Fees and service expenses		205,983	169,598
<b>Net fees and service income</b>	27, 31	<b>735,922</b>	<b>712,650</b>
Net gain on trading and foreign exchange transactions	32	2,083,031	2,132,169
Net gain on investments	33	33,942	-
Other operating income	27	9,388	8,955
<b>Total operating income</b>		<b>5,215,653</b>	<b>5,517,986</b>
Other operating expenses			
Employee expenses	27, 35	1,028,230	844,456
Premises and equipment expenses		332,861	596,390
Taxes and duties		73,560	65,869
Other expenses	27, 36	476,360	607,380
<b>Total other operating expenses</b>		<b>1,911,011</b>	<b>2,114,095</b>
Bad debts, doubtful accounts expense and impairment loss (reversal)	34	(67,076)	(265,117)
<b>Operating profit before income tax expense from continuing operations</b>		<b>3,371,718</b>	<b>3,669,008</b>
Income tax expense	37	(638,467)	(782,330)
<b>Net profit from continuing operations</b>		<b>2,733,251</b>	<b>2,886,678</b>
<b>Discontinued operation</b>			
Profit from discontinued operation	17	-	1,975,245
<b>Net profit</b>		<b>2,733,251</b>	<b>4,861,923</b>
Other comprehensive income			
Gains (losses) on remeasurement of available-for-sale investments		(63,998)	118,813
Actuarial losses on defined benefit plans	23	(6,743)	(3,597)
Other reserves		(1,684)	7,707
Income tax on other comprehensive income	37	18,420	(17,420)
<b>Total other comprehensive income, net of income tax</b>		<b>(54,005)</b>	<b>105,503</b>
<b>Total comprehensive income</b>		<b>2,679,246</b>	<b>4,967,426</b>

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	Other components of accounts with head office and other branches of the same juristic person				Retained	Total
		Inter-office accounts with head office and other branches of the same juristic person	Net funds brought in to maintain assets under the Act	Net balance of Inter-office accounts with head office and other branches of the same juristic person	Other components of accounts with head office and other branches of the same juristic person	earnings		
	Note				Gains (losses) on remeasurement of available-for-sale investments			
					(in thousand Baht)			
<b>Balance at 1 January 2012</b>								
<b>Comprehensive income for the year</b>								
Net profit								
Other comprehensive income, net of income tax								
Gains on remeasurement of available-for-sale investments								
Actuarial losses on defined benefit plans	23							
Others								
Total other comprehensive income, net of income tax								
Total comprehensive income								
Movement in balance of inter-office accounts with head office and other branches of the same juristic person								
<b>Balance at 31 December 2012 and 1 January 2013</b>								
<b>Comprehensive income for the year</b>								
Net profit								
Other comprehensive income, net of income tax								
Losses on remeasurement of available-for-sale investments								
Actuarial losses on defined benefit plans	23							
Others								
Total other comprehensive income, net of income tax								
Total comprehensive income								
Increase in capital								
Movement in balance of inter-office accounts with head office and other branches of the same juristic person								
Profit remittance to head office								
<b>Balance at 31 December 2013</b>								

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	
	2013	2012
	(in thousand Baht)	
<b>Cash flows from operating activities</b>		
Operating profit before income tax expenses	3,371,718	6,204,131
<b>Adjustments to reconcile profit from operations before income tax expense to cash received (paid) from operating activities</b>		
Depreciation and amortisation	29,834	54,207
Bad debt and doubtful accounts expense and impairment loss (reversal)	(67,076)	(286,756)
Loss on impairment of leasehold right	-	253,832
Unrealised losses on revaluation of trading investment	45,606	56,788
Losses (gains) on disposal of equipment	(917)	20,317
Unrealised losses (gains) on change in foreign exchange	17,022	(624,435)
Unrealised gains on derivative assets and liabilities	(527,887)	(1,083,804)
Provisions for contingent liabilities	-	21,639
Increase in other reserves	2,808	10,150
Net interest income	(2,353,370)	(3,154,190)
Proceeds from interest income	4,739,636	5,820,458
Interest paid	(2,395,367)	(2,884,971)
Income tax paid	(822,057)	(1,653,486)
<b>Profit from operations before changes in operating assets and liabilities</b>	<b>2,039,950</b>	<b>2,753,880</b>
<b>Decrease (increase) in operating assets</b>		
Interbank and money market items	18,619,221	13,106,717
Trading investment	(3,719,484)	(6,892,095)
Loans to customers	(7,972,831)	7,288,424
Properties foreclosed	15,360	(63,110)
Assets classified as held for sale	-	13,108,922
Other assets	1,228,692	(951,562)
<b>Increase (decrease) in operating liabilities</b>		
Deposits	(11,864,429)	13,458,321
Interbank and money market items	(1,840,490)	(359,066)
Liabilities payable on demand	(538,523)	1,142,578
Debt issued and borrowings	(1,488,552)	(19,257,916)
Employee benefit obligations	15,988	(31,429)
Provisions	(90,316)	286,269
Liabilities classified as held for sale	-	(18,109,486)
Other liabilities	2,862,522	884,022
<b>Net cash provided by (used in) operating activities</b>	<b>(2,732,892)</b>	<b>6,364,469</b>

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

2013                      2012

(in thousand Baht)

### *Cash flows from investing activities*

Decrease (increase) in available-for-sale investments	3,165,325	(7,291,228)
Purchases of equipment	(19,499)	(4,821)
Proceeds from sales of equipment	2,372	833
<b>Net cash provided by (used in) investing activities</b>	<b>3,148,198</b>	<b>(7,295,216)</b>

### *Cash flows from financing activities*

Funds brought in to maintain assets under the Act	4,351,395	-
Profit remitted to head office	(7,851,395)	-
Increase in net balance of inter-office accounts with head office and other branches of the same juristic person	3,037,544	910,643
<b>Net cash provided by (used in) financing activities</b>	<b>(462,456)</b>	<b>910,643</b>

<b>Net decrease in cash</b>	<b>(47,150)</b>	<b>(20,104)</b>
Cash at 1 January	103,531	123,635
<b>Cash at 31 December</b>	<b>56,381</b>	<b>103,531</b>

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

**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
**Notes to the financial statements**

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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 17 February 2014.

### **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 part 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 presented as prescribed by the Bank of Thailand (“BoT”) notification number SOR NOR SOR 11/2553, directive dated 3 December 2010, regarding the “The Preparation and announcement of the financial statements of commercial banks and holding companies which are a parent company of a group of companies offering financial services”, any other supplementary BoT notification.

The FAP has issued the following revised TFRS relevant to the Branch’s operations and effective for accounting periods beginning on or after 1 January 2013:

TFRS	Topic
TAS 21 (revised 2009)	The Effects of Changes in Foreign Exchange Rates

The adoption of this revised TFRS has resulted in changes in the Branch’s accounting policies. The effects of these changes are disclosed in note 3.

In addition to the above revised TFRS, the FAP has issued a number of revised TFRS which are effective for financial statements beginning on or after 1 January 2014 and have not been adopted in the preparation of these financial statements. Those revised TFRS that are relevant to the Branch’s operations are disclosed in note 38.

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

## **Notes to the financial statements**

### **(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;
- financial instruments at fair value through profit or loss are measured at fair value;
- trading and available-for-sale financial assets are measured at fair value;
- the present value of the defined benefit obligation.

### **(c) *Functional and presentation currency***

The financial statements are presented in Thai Baht, which is the Branch's functional currency. All financial information presented in Thai Baht has been rounded in the notes to the financial statements to the nearest million, unless otherwise stated.

### **(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:

Note 12      Allowance for doubtful accounts

## **3 Change in accounting policy**

### **(a) *Overview***

From 1 January 2013, consequent to the adoption of revised TFRS as set out in note 2, the Branch has changed its accounting policies in the following areas:

- Accounting for the effects of changes in foreign exchange rates

Details of the new accounting policies adopted by the Branch are included in notes 3(b) below. Other new and revised TFRS did not have any impact on the accounting policies, financial position or performance of the Branch.

### **(b) *Accounting for the effects of changes in foreign exchange rates***

From 1 January 2013, the Branch has adopted TAS 21(revised 2009) Accounting for the effects of changes in foreign exchange rates.

The principal change introduced by TAS 21(revised 2009) is the introduction of the concept of functional currency, which is defined as the currency of the primary economic environment in which the Branch operates. TAS 21(revised 2009) requires the Branch 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(revised 2009). Foreign currencies are defined by TAS 21(revised 2009) as all currencies other than the Branch's functional currency.



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

## **Notes to the financial statements**

Management has determined that the functional currency of the Branch is Thai Baht and that the adoption of TAS 21(revised 2009) from 1 January 2013 has not had a significant impact on the Branch's reported assets, liabilities or retained earnings.

### **4 Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except as explained in note 3, which addresses changes in accounting policies.

#### **(a) Foreign currency**

##### *Foreign currency transactions*

Transactions in foreign currencies are translated to the functional currency (Thai Baht) at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency 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.

#### **(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 or 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 any 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 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.

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

## **Notes to the financial statements**

### *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 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.

#### **(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.

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

## **Notes to the financial statements**

### **(g) *Properties foreclosed***

Properties foreclosed 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 foreclosed. Loss on impairment of properties for sale is recognised in profit or loss. Gain or loss on disposal of properties foreclosed is recognised as income or expense at the date of disposal.

### **(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.

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 of leasehold improvements and equipment, 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.

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

## **Notes to the financial statements**

### **(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.

### **(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.



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

## **Notes to the financial statements**

### *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.

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.

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

### **Notes to the financial statements**

#### *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 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, 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.

### **(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.

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

## **Notes to the financial statements**

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

### *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.

## **(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 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 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.

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

## **Notes to the financial statements**

### **(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 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.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Branch expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

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

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 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.



# The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

## Notes to the financial statements

### (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 refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Branch. The Branch has adopted a policy of dealing with credit worthy counterparts and obtaining sufficient collateral or other security, where appropriate, as a means of mitigating the risk of financial losses from defaults.

In respect of recognised financial assets, the carrying amount of the assets recorded in the statements of financial position, net of allowance for doubtful accounts, represents the Branch's exposure to credit loss.

The Branch's exposure to credit loss in case of non-performance by a counterparty to the financial instruments is represented by the contractual notional amount of those instruments.

Credit risk also arises from the possibility that a counterparty to off-financial reporting financial instruments will not adhere to the terms of the contract with the Branch when settlement becomes due.

Off-financial reporting financial instruments classified by type and at regulatory credit equivalent values as at 31 December 2013 and 2012 were as follows:

	2013	2012
	<i>(in million Baht)</i>	
Forward exchange contracts	23,248	19,124
Forward interest rate contracts	19,197	14,676
Equity option	36	335
<b>Total</b>	<b>42,481</b>	<b>34,135</b>

# The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

## Notes to the financial statements

### 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.

#### (a) 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 2013 and 2012 were as follows:

	2013					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>						
<b>Financial assets</b>							
Cash	-	-	-	-	56	56	-
Interbank and money market items, net	56,754	200	-	-	1,686	58,640	2.79
Derivative assets	-	-	-	-	43,942	43,942	-
Investments, net	12,061	30,056	12,903	1,359	220	56,599	2.97
Loans to customers and accrued interest receivable, net	33,364	6,320	2,275	117	108	42,184	2.84
Customer liabilities under acceptances	-	-	-	-	3	3	-
Other assets	-	-	-	-	316	316	-
<b>Total financial assets</b>	<b>102,179</b>	<b>36,576</b>	<b>15,178</b>	<b>1,476</b>	<b>46,331</b>	<b>201,740</b>	
<b>Financial liabilities</b>							
Deposits	75,350	2,272	-	-	6,590	84,212	1.02
Interbank and money market items	9,170	-	-	-	3,836	13,006	1.57
Liabilities payable on demand	-	-	-	-	3,820	3,820	-
Derivative liabilities	-	-	-	-	43,257	43,257	-
Debt issued and borrowings	12,288	2,171	91	-	-	14,550	4.66
Bank liabilities under acceptances	-	-	-	-	3	3	-
Other liabilities	3,850	-	-	-	2,189	6,039	0.08
<b>Total financial liabilities</b>	<b>100,658</b>	<b>4,443</b>	<b>91</b>	<b>-</b>	<b>59,695</b>	<b>164,887</b>	
<b>Difference of on-financial items, net</b>	<b>1,521</b>	<b>32,133</b>	<b>15,087</b>	<b>1,476</b>	<b>(13,364)</b>	<b>36,853</b>	

**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
**Notes to the financial statements**

	2012 (Restated)						Average Interest Rate (% per annum)
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non- interest bearing	Total	
<i>(in million Baht)</i>							
<b><i>Financial assets</i></b>							
Cash	-	-	-	-	104	104	-
Interbank and money market items, net	75,749	-	-	-	1,391	77,140	2.86
Derivative assets	-	-	-	-	29,307	29,307	-
Investments, net	11,639	23,231	20,094	992	220	56,176	3.13
Loans to customers and accrued interest receivable, net	27,430	4,866	1,114	142	126	33,678	4.27
Customer liabilities under acceptances	-	-	-	-	92	92	-
Other assets	1,223	-	-	-	442	1,665	0.40
<b>Total financial assets</b>	<b>116,041</b>	<b>28,097</b>	<b>21,208</b>	<b>1,134</b>	<b>31,682</b>	<b>198,162</b>	
<b><i>Financial liabilities</i></b>							
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	-	-	-	-	29,172	29,172	-
Debt issued and borrowings	12,610	3,342	87	-	-	16,039	3.41
Bank liabilities under acceptances	-	-	-	-	92	92	-
Other liabilities	527	-	-	-	2,858	3,385	0.15
<b>Total financial liabilities</b>	<b>106,182</b>	<b>7,369</b>	<b>103</b>	<b>-</b>	<b>49,811</b>	<b>163,465</b>	
<b>Difference of on-financial items, net</b>	<b>9,859</b>	<b>20,728</b>	<b>21,105</b>	<b>1,134</b>	<b>(18,129)</b>	<b>34,697</b>	

**(b) 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 instruments or may cause volatility in the Branch's earnings or cost of funds. Tools adopted for managing foreign exchange rate risk are for instance, limited open positions and Value at Risk ("VaR").

As at 31 December 2013 and 2012, the Branch's financial assets and liabilities denominated in foreign currencies, in Baht equivalent, were as follows:

**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
**Notes to the financial statements**

	2013					
	USD	Euro	Yen	Pound	Others	Total
	(in million Baht)					
<b>Financial assets</b>						
Interbank and money market items, net	583	2	-	10	30	625
Derivative assets	3,988	48	1,077	-	50	5,163
Loans to customers and accrued interest receivable, net	14,272	40	-	1	197	14,510
Customer liabilities under acceptances	3	-	-	-	-	3
Other assets	55	-	-	-	-	55
<b>Total financial assets</b>	<b>18,901</b>	<b>90</b>	<b>1,077</b>	<b>11</b>	<b>277</b>	<b>20,356</b>
<b>Financial liabilities</b>						
Deposits	20,647	269	1,409	143	92	22,560
Interbank and money market items	3	-	29	-	-	32
Liabilities payable on demand	23	1	-	5	4	33
Derivative liabilities	22,777	1,337	431	691	86	25,322
Bank liabilities under acceptances	3	-	-	-	-	3
Other liabilities	3,659	-	-	-	-	3,659
<b>Total financial liabilities</b>	<b>47,112</b>	<b>1,607</b>	<b>1,869</b>	<b>839</b>	<b>182</b>	<b>51,609</b>
<b>On-financial reporting items, net</b>	<b>(9,422)</b>	<b>(228)</b>	<b>(1,438)</b>	<b>(137)</b>	<b>131</b>	<b>(11,094)</b>
<b>Off-financial reporting items, net</b>	<b>(18,789)</b>	<b>(1,289)</b>	<b>646</b>	<b>(691)</b>	<b>(36)</b>	<b>(20,159)</b>
	2012					
	USD	Euro	Yen	Pound	Others	Total
	(Restated)					
	(in million Baht)					
<b>Financial assets</b>						
Cash	2	12	-	2	-	16
Interbank and money market items, net	553	130	-	11	34	728
Derivative assets	13,207	234	289	215	21	13,966
Loans to customers and accrued interest receivable, net	10,885	355	70	7	102	11,419
Customer liabilities under acceptances	65	-	-	-	-	65
Other assets	860	-	-	-	-	860
<b>Total financial assets</b>	<b>25,572</b>	<b>731</b>	<b>359</b>	<b>235</b>	<b>157</b>	<b>27,054</b>
<b>Financial liabilities</b>						
Deposits	12,348	323	3,546	1,379	117	17,713
Liabilities payable on demand	13	1	-	2	2	18
Derivative liabilities	4,946	715	1,511	32	157	7,361
Bank liabilities under acceptances	65	-	-	-	-	65
Other liabilities	664	-	-	-	-	664
<b>Total financial liabilities</b>	<b>18,036</b>	<b>1,039</b>	<b>5,057</b>	<b>1,413</b>	<b>276</b>	<b>25,821</b>
<b>On-financial reporting items, net</b>	<b>(725)</b>	<b>173</b>	<b>(3,476)</b>	<b>(1,361)</b>	<b>17</b>	<b>(5,372)</b>
<b>Off-financial reporting items, net</b>	<b>8,261</b>	<b>(481)</b>	<b>(1,222)</b>	<b>183</b>	<b>(136)</b>	<b>6,605</b>

**(c) 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.

# The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

## Notes to the financial statements

### 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 2013 and 2012 was as follows:

			2013				
			3 months				
	At call	Less than	to	1 to 5	Over	No	Total
		3 months	1 year	years	5 years	maturity	
			(in million Baht)				
<b>Financial assets</b>							
Cash	-	-	-	-	-	56	56
Interbank and money market items, net	1,808	56,632	200	-	-	-	58,640
Derivative assets	125	7,049	9,886	21,155	5,727	-	43,942
Investments, net	-	12,061	30,056	12,903	1,359	220	56,599
Loans to customers and accrued interest receivable, net	-	21,707	3,793	13,331	3,353	-	42,184
Customer liabilities under acceptances	-	3	-	-	-	-	3
Other assets	-	-	-	-	-	316	316
<b>Total financial assets</b>	<b>1,933</b>	<b>97,452</b>	<b>43,935</b>	<b>47,389</b>	<b>10,439</b>	<b>592</b>	<b>201,740</b>
<b>Financial liabilities</b>							
Deposits	63,671	18,269	2,272	-	-	-	84,212
Interbank and money market items	6,506	6,500	-	-	-	-	13,006
Liabilities payable on demand	3,820	-	-	-	-	-	3,820
Derivative liabilities	186	6,284	9,514	22,878	4,395	-	43,257
Debt issued and borrowings	-	596	-	5,732	8,222	-	14,550
Bank liabilities under acceptances	-	3	-	-	-	-	3
Other liabilities	-	3,850	-	-	-	2,189	6,039
<b>Total financial liabilities</b>	<b>74,183</b>	<b>35,502</b>	<b>11,786</b>	<b>28,610</b>	<b>12,617</b>	<b>2,189</b>	<b>164,887</b>
<b>Liquidity, net</b>	<b>(72,250)</b>	<b>61,950</b>	<b>32,149</b>	<b>18,779</b>	<b>(2,178)</b>	<b>(1,597)</b>	<b>36,853</b>

**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
**Notes to the financial statements**

	2012 (Restated)						
	At call	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No maturity	Total
	<i>(in million Baht)</i>						
<b><i>Financial assets</i></b>							
Cash	-	-	-	-	-	104	104
Interbank and money market items, net	1,681	75,459	-	-	-	-	77,140
Derivative assets	46	4,377	4,634	13,903	6,347	-	29,307
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
Customer liabilities under acceptances	-	65	27	-	-	-	92
Other assets	-	1,223	-	-	-	442	1,665
<b>Total financial assets</b>	<b>1,727</b>	<b>111,652</b>	<b>31,490</b>	<b>40,602</b>	<b>11,925</b>	<b>766</b>	<b>198,162</b>
<b><i>Financial liabilities</i></b>							
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	76	4,312	5,359	14,702	4,723	-	29,172
Debt issued and borrowings	-	844	1,448	5,321	8,426	-	16,039
Bank liabilities under acceptances	-	65	27	-	-	-	92
Other liabilities	-	527	-	-	-	2,858	3,385
<b>Total financial liabilities</b>	<b>88,257</b>	<b>28,301</b>	<b>10,861</b>	<b>20,039</b>	<b>13,149</b>	<b>2,858</b>	<b>163,465</b>
<b>Liquidity, net</b>	<b>(86,530)</b>	<b>83,351</b>	<b>20,629</b>	<b>20,563</b>	<b>(1,224)</b>	<b>(2,092)</b>	<b>34,697</b>

## 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 2013 and 2012, a summary of the carrying value and fair value of financial instruments was as follows:

	2013		2012 (Restated)		1 January 2012 (Restated)	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	<i>(in million Baht)</i>					
<b><i>Financial assets</i></b>						
Cash	56	56	104	104	124	124
Interbank and money market items, net	58,640	58,640	77,140	77,140	90,322	90,322
Derivative assets	43,942	43,942	29,307	29,307	36,308	36,308
Investments, net	56,599	56,599	56,176	56,176	41,950	41,950
Loans to customers and accrued interest receivables, net *	42,184	42,184	33,678	33,678	40,822	40,822
<b>Total financial assets</b>	<b>201,421</b>	<b>201,421</b>	<b>196,405</b>	<b>196,405</b>	<b>209,526</b>	<b>209,526</b>

# The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

## Notes to the financial statements

	2013		2012 (Restated)		1 January 2012 (Restated)	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	<i>(in million Baht)</i>					
<b>Financial liabilities</b>						
Deposits	84,212	84,212	95,572	95,572	82,919	82,919
Interbank and money market items	13,006	13,006	14,847	14,847	15,206	15,206
Liabilities payable on demand	3,820	3,820	4,358	4,358	3,216	3,216
Derivative liabilities	43,257	43,257	29,172	29,172	37,276	37,276
Debt issued and borrowings	14,550	14,550	16,039	16,039	35,296	35,296
<b>Total financial liabilities</b>	<b>158,845</b>	<b>158,845</b>	<b>159,988</b>	<b>159,988</b>	<b>173,913</b>	<b>173,913</b>

\* 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 are 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 2013, can be summarised as follows:

	2013 (in million Baht)
<b>Assets maintained under Section 32</b>	<b>16,586</b>
<b>Sum of net capital for maintenance of assets under Section 32 and net balance of inter-office accounts</b>	
Net fund brought in to maintenance assets under Section 32	16,000
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	17,922
<b>Total</b>	<b>33,922</b>
<b>Capital Fund (in million Baht)</b>	<b>16,000</b>
<b>Capital Adequacy Ratio (%)</b>	<b>18.34</b>

# The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

## Notes to the financial statements

As at 31 December 2013, the Branch has applied the Standardised Approach (SA) for credit risk and operational risk and the Combined Approach between Standardised Approach and Internal Model for market risk as approved by the Bank of Thailand and in accordance with the Bank of Thailand notification.

As at 31 December 2013, the Branch met the minimum Capital Adequacy Ratio requirements set down by the Bank of Thailand, which is in compliance with the Basel III Accord on first time adoption, for total capital at minimum of 8.5%.

In accordance with the Bank of Thailand Notification No. Sor.Nor.Sor. 4/2556 dated 2 May 2013, Re: “The Public Disclosure of Capital Maintenance for Commercial Banks”, the Branch intends to disclose Capital Maintenance information as of 31 December 2013 within 4 months after the year end date as indicated in the notification through the Branch’s website [www.hsbc.co.th](http://www.hsbc.co.th).

### 8 Interbank and money market items, net (assets)

	At call	2013 Term	Total	At call	2012 Term	Total
	(in million Baht)					
<b>Domestic</b>						
The Bank of Thailand and Financial Institutions						
Development Fund	887	12,798	13,685	396	42,100	42,496
Commercial banks	210	43,655	43,865	210	31,600	31,810
Other financial institutions	300	-	300	350	1,699	2,049
Add accrued interest receivable	-	184	184	-	65	65
Less deferred revenue	-	(3)	(3)	-	-	-
allowance for doubtful accounts	(3)	(6)	(9)	(3)	(5)	(8)
<b>Total domestic</b>	<b>1,394</b>	<b>56,628</b>	<b>58,022</b>	<b>953</b>	<b>75,459</b>	<b>76,412</b>
<b>Foreign</b>						
US Dollar	380	196	576	553	-	553
Euro	2	-	2	131	-	131
Other currencies	33	7	40	44	-	44
<b>Total foreign</b>	<b>415</b>	<b>203</b>	<b>618</b>	<b>728</b>	<b>-</b>	<b>728</b>
<b>Total domestic and foreign</b>	<b>1,809</b>	<b>56,831</b>	<b>58,640</b>	<b>1,681</b>	<b>75,459</b>	<b>77,140</b>

### 9 Derivatives

#### 9.1 Derivatives held for trading

As at 31 December 2013 and 2012 and 1 January 2012, fair value and notional amount of derivatives classified by type of risks are as follows:

Type of risk	31 December 2013				
	Fair value		Notional amount		Total
	Assets	Liabilities	Upto 1 year	Over 1 year	
	(in million Baht)				
Exchange rate	25,892	24,016	732,893	274,334	1,007,227
Interest rate	18,041	19,210	986,717	1,566,722	2,553,439
Others					
- Equities	9	-	-	300	300
- Bond	-	3	-	300	300
<b>Total</b>	<b>43,942</b>	<b>43,229</b>	<b>1,719,610</b>	<b>1,841,656</b>	<b>3,561,266</b>



**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
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Type of risk	31 December 2012 (Restated)				
	Fair value		Notional amount		Total
	Assets	Liabilities	Upto 1 year (in million Baht)	Over 1 year	
Exchange rate	14,593	12,900	730,044	245,843	975,887
Interest rate	14,522	16,222	1,339,901	1,462,784	2,802,685
Others					
- Equities	192	-	1,964	276	2,240
<b>Total</b>	<b>29,307</b>	<b>29,122</b>	<b>2,071,909</b>	<b>1,708,903</b>	<b>3,780,812</b>

Type of risk	1 January 2012 (Restated)				
	Fair value		Notional amount		Total
	Assets	Liabilities	Upto 1 year (in million Baht)	Over 1 year	
Exchange rate	18,696	16,809	684,127	176,104	860,231
Interest rate	17,469	20,387	1,119,806	1,390,698	2,510,504
Others					
- Equities	143	9	865	2,377	3,242
- Bond	-	-	4,437	-	4,437
<b>Total</b>	<b>36,308</b>	<b>37,205</b>	<b>1,809,235</b>	<b>1,569,179</b>	<b>3,378,414</b>

As at 31 December 2013 and 2012, proportions of the notional amount of derivative transactions, classified by counterparties, consisted of:

Counterparty	2013	2012
	(%)	(%)
Financial institutions	54	55
Related parties	39	39
Third parties	7	6
<b>Total</b>	<b>100</b>	<b>100</b>

During the year 2013, the management decided to disclose the derivative assets and liabilities for inter branch on gross basis as compared to net basis in the previous years.

## 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 2013 and 2012 and 1 January 2012, the fair value and notional amount of derivatives held for fair value hedging, classified by type of risk, consisted of:

Type of risk	31 December 2013			31 December 2012			1 January 2012		
	Notional		Amount	Notional		Amount	Notional		Amount
	Assets	Liabilities		Assets	Liabilities		Assets	Liabilities	
Interest rate	-	28	949	-	50	1,149	-	71	1,149
<b>Total</b>	<b>-</b>	<b>28</b>	<b>949</b>	<b>-</b>	<b>50</b>	<b>1,149</b>	<b>-</b>	<b>71</b>	<b>1,149</b>

**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
**Notes to the financial statements**

**10 Investments, net**

**10.1 Classification of investment in securities**

As at 31 December 2013 and 2012, the Branch classified investment types, as follows:

	2013 Fair value (in million Baht)	2012 Fair value
<b><i>Trading investments</i></b>		
Government and state enterprise securities	19,789	16,077
Private debt instruments	455	493
<b>Total</b>	<b>20,244</b>	<b>16,570</b>
<b><i>Available-for-sale investments</i></b>		
Government and state enterprise securities	36,135	38,784
Private debt instruments	-	602
Marketable equity shares - domestic	220	220
<b>Total</b>	<b>36,355</b>	<b>39,606</b>
<b>Total investments, net</b>	<b>56,599</b>	<b>56,176</b>

As at 31 December 2013, investments classified as available-for-sale with market values of Baht 16,586 million (2012: Baht 12,164 million) were maintained as capital fund under the Bank of Thailand's regulation.

As at 31 December 2012, investments classified as available-for-sale with market values of Baht 2,987 million was collateralised to other parties under repurchase agreements.

**10.2 Gain (loss) on remeasurement of available-for-sale investments as follows:**

	2013 (in million Baht)	2012
<b>Gain on investments</b>		
Debt securities	88	162
Equity securities	20	20
<b>Loss on investments</b>		
Debt securities	(6)	(16)
Total	102	166
Less deferred tax	(25)	(42)
<b>Net</b>	<b>77</b>	<b>124</b>

**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
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**11 Loans to customers and accrued interest receivables, net**

**11.1 Classified by type of loans**

	2013 (in million Baht)	2012
Overdrafts	1,775	974
Loans	35,998	27,818
Bills	5,158	5,682
Less deferred revenue	(5)	(9)
Total loans to customers net from deferred revenue	42,926	34,465
Add accrued interest receivables	108	130
Total loans to customers net from deferred revenue add accrued interest receivables	43,034	34,595
Less allowance for doubtful accounts		
- BoT's minimum requirement		
- individual approach	(796)	(743)
- Allowance in excess	(54)	(174)
<b>Total loans to customers and accrued interest receivables, net</b>	<b>42,184</b>	<b>33,678</b>

**11.2 Classified by currency and residency of debtors**

	Domestic	2013 Foreign	Total (in million Baht)	Domestic	2012 Foreign	Total
Baht	28,261	-	28,261	22,894	-	22,894
US Dollar	11,487	2,938	14,425	11,028	-	11,028
Other currencies	240	-	240	486	57	543
<b>Total*</b>	<b>39,988</b>	<b>2,938</b>	<b>42,926</b>	<b>34,408</b>	<b>57</b>	<b>34,465</b>

\* Loans to customers net of deferred revenue

**11.3 Classified by type of business and loan classification**

	Pass	Special mention	2013 Substandard	Doubtful	Doubtful of loss	Total
	(in million Baht)					
Agriculture and mining	1,132	-	-	-	-	1,132
Industrial and commercial	27,242	213	-	158	235	27,848
Property and construction	852	-	-	100	-	952
Infrastructure and service	12,376	191	-	-	-	12,567
Home mortgages	290	-	-	-	-	290
Others	131	-	1	-	5	137
<b>Total*</b>	<b>42,023</b>	<b>404</b>	<b>1</b>	<b>258</b>	<b>240</b>	<b>42,926</b>

\* Loans to customers net of deferred revenue

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	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
<b>Total*</b>	<b>33,347</b>	<b>583</b>	<b>8</b>	<b>277</b>	<b>250</b>	<b>34,465</b>

\* Loans to customers net of deferred revenue

**11.4 Loans classified by grade**

	2013			
	Loans to customers and accrued interest receivables	Net amount to set up allowance for doubtful accounts	Rate used to 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	42,129	40,580	1	405
- Special mention	406	406	2	8
- Substandard	1	1	100	1
- Doubtful	258	157	100	157
- Doubtful of loss	240	216	100	216
<b>Total</b>				<b>787</b>
Allowance in excess				63
<b>Total *</b>	<b>43,034</b>	<b>41,360</b>		<b>850</b>

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

	2012			
	Loans to customers and accrued interest receivables	Net amount to set up allowance for doubtful accounts	Rate used to 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
<b>Total</b>				<b>743</b>
Allowance in excess				174
<b>Total *</b>	<b>34,595</b>	<b>32,823</b>		<b>917</b>

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

# The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

## Notes to the financial statements

### 11.5 Non-performing loans

As at 31 December 2013 and 2012 the Branch had non-performing loans gross (“NPLs Gross”) (including financial institutions) based on the BoT notification as follows:

	2013	2012
<b><i>Non-performing loans, gross</i></b>		
NPLs, gross ( <i>in million Baht</i> )	499	535
Total loans used for NPLs ratio calculation <sup>(1)</sup> ( <i>in million Baht</i> )	99,880	110,214
Percentage of total loans <sup>(2)</sup>	0.50	0.49

(1) Total loans used for NPLs 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 NPLs Gross to total loans before allowance for doubtful accounts of non-performing loans.

As at 31 December 2013 and 2012 the Branch had non-performing loans net (“NPLs Net”) (including financial institutions) based on the BoT notification as follows:

	2013	2012
<b><i>Non-performing loans, net</i></b>		
NPLs, net ( <i>in million Baht</i> )	124	10
Total loans used for NPLs, net ratio calculation <sup>(1)</sup> ( <i>in million Baht</i> )	99,504	109,689
Percentage of total loans <sup>(2)</sup>	0.12	0.01

(1) Total loans used for NPLs, net 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 NPLs, net to total loans after allowance for doubtful accounts of non-performing loans.

As at 31 December 2013, Allowance for doubtful account of Baht 375 million (2012: Baht 525 million) have been provided against the Branch’s non-performing loans being those classified as substandard, doubtful and doubtful of loss.

### 12 Allowance for doubtful accounts

Movements in the allowance for doubtful accounts for loans to customers during the years ended 31 December 2013 and 2012 consisted of:

	2013					
	Pass	Special mention	Substandard	Doubtful	Doubtful of loss	Total
	<i>(in million Baht)</i>					
<b>Beginning balance</b>	<b>381</b>	<b>12</b>	<b>8</b>	<b>271</b>	<b>245</b>	<b>917</b>
Doubtful accounts charge	86	(4)	(7)	(114)	(28)	(67)
Bad debts written off	-	-	-	-	(3)	(3)
Movement in exchange rate	-	-	-	-	3	3
<b>Ending balance</b>	<b>467</b>	<b>8</b>	<b>1</b>	<b>157</b>	<b>217</b>	<b>850</b>

**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
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	2012				
	Pass	Special mention	Substandard	Doubtful	Doubtful of loss
	<i>(in million Baht)</i>				Total
<b>Beginning balance</b>	<b>406</b>	<b>10</b>	<b>-</b>	<b>333</b>	<b>354</b>
Doubtful accounts charge	(20)	-	8	(59)	(224)
Bad debts recoveries	-	-	-	-	177
Bad debts written off	-	-	-	-	(58)
Movement in exchange rate	-	-	-	(7)	(3)
Movement to other grades	(5)	2	-	4	(1)
<b>Ending balance</b>	<b>381</b>	<b>12</b>	<b>8</b>	<b>271</b>	<b>245</b>

**13 Properties foreclosed**

As at 31 December 2013 and 2012, properties foreclosed consisted of:

	2013			
	Beginning balance	Additions	Disposals	Ending balance
	<i>(in million Baht)</i>			
<b>Assets acquired from debt repayment</b>				
Immovable assets				
- Appraised by external appraiser	78	-	15	63
<b>Total properties foreclosed</b>	<b>78</b>	<b>-</b>	<b>15</b>	<b>63</b>

  

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

**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
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**14 Leasehold improvements and equipment, net**

Changes in leasehold improvements and equipment during the year ended 31 December 2013 were as follows:

	Net book value at 1 January 2013	Beginning balance	Cost		Ending balance	Beginning balance	Accumulated depreciation		Ending balance	Net book value at 31 December 2013
			Additions	Disposals	(in million Baht)		Depreciation	Disposals		
Leasehold improvements	-	317	-	-	317	317	-	-	317	-
Equipment	33	219	19	(34)	204	186	13	(32)	167	37
<b>Total</b>	<b>33</b>	<b>536</b>	<b>19</b>	<b>(34)</b>	<b>521</b>	<b>503</b>	<b>13</b>	<b>(32)</b>	<b>484</b>	<b>37</b>

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

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

The gross amount of the Branch's fully depreciated leasehold improvements and equipment that was still in use as at 31 December 2013 amounted to Baht 452 million (2012: Baht 469 million).

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**15 Leasehold right for land and buildings, net**

	2013 (in million Baht)	2012 (in million Baht)
Cost	909	909
Less accumulated amortisation	(467)	(452)
Less loss on impairment	(254)	(254)
<b>Net</b>	<b>188</b>	<b>203</b>

**16 Deferred tax assets, net**

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

	2013 (in million Baht)	2012 (in million Baht)
Deferred tax assets	216	230
Deferred tax liabilities	(34)	(69)
<b>Net</b>	<b>182</b>	<b>161</b>

Movements in deferred tax assets and liabilities during the year ended 31 December 2013 and 2012 were as follows:

	At 1 January 2013	(Charged)/ Credited to Profit or loss (note 37) Other comprehensive income (in million Baht)		At 31 December 2013
<b>Deferred tax assets</b>				
Allowance for doubtful accounts and provision for contingent liabilities	43	(4)	-	39
Provision for impairment	51	(4)	-	47
Others	136	(7)	1	130
<b>Total</b>	<b>230</b>	<b>(15)</b>	<b>1</b>	<b>216</b>
<b>Deferred tax liabilities</b>				
Investments	55	(9)	(17)	29
Borrowings and financial instruments	14	(9)	-	5
<b>Total</b>	<b>69</b>	<b>(18)</b>	<b>(17)</b>	<b>34</b>
<b>Net</b>	<b>161</b>	<b>3</b>	<b>18</b>	<b>182</b>



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	At 1 January 2012	(Charged)/ Credited to Profit or loss (note 37) Other comprehensive income (in million Baht)		At 31 December 2012
<b><i>Deferred tax assets</i></b>				
Allowance for doubtful accounts and provision for contingent liabilities	90	(47)	-	43
Provision for impairment	-	51	-	51
Others	123	14	(1)	136
<b>Total</b>	<b>213</b>	<b>18</b>	<b>(1)</b>	<b>230</b>
<b><i>Deferred tax liabilities</i></b>				
Investments	54	(15)	16	55
Deferred expenses	56	(56)	-	-
Borrowings and financial instruments	42	(28)	-	14
<b>Total</b>	<b>152</b>	<b>(99)</b>	<b>16</b>	<b>69</b>
<b>Net</b>	<b>61</b>	<b>117</b>	<b>(17)</b>	<b>161</b>

**17 Discontinued operation**

During 2011, the Head Office decided to offer for sale the retail business of the Branch, comprising its entire retail segment. 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 year ended 31 December 2012 was as follows:

	2012 (in million Baht)
Interest income	560
Interest expense	70
<b>Net interest income</b>	<b>490</b>
Fees and service income	250
Fees and service expenses	34
<b>Net fees and service income</b>	<b>216</b>
Other operating income	3,348
<b>Total operating income</b>	<b>4,054</b>
Other operating expenses	(1,569)
Reversal of bad debt and doubtful accounts expenses	50
<b>Operating profit before income tax expense from discontinued operations</b>	<b>2,535</b>
Income tax expense	(560)
<b>Net profit from discontinued operations</b>	<b>1,975</b>

**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
**Notes to the financial statements**

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

	2012 (in million Baht)
Net cash used in operating activities	(3,052)
Net cash provided by financing activities	10,505
<b>Net cash provided by discontinued operation</b>	<b>7,453</b>

**18 Other assets**

	2013 (in million Baht)	2012 (in million Baht)
Accrued income receivable	238	369
Margin deposits	32	1,248
Others	46	48
<b>Total</b>	<b>316</b>	<b>1,665</b>

**19 Classified assets**

As at 31 December 2013 and 2012, 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	2013 Loans to customers and accrued interest receivables		Properties foreclosed	Total
		Interbank and money market	Customers (in million Baht)		
Pass	56,599	57,128	42,129	63	155,919
Special mention	-	9	406	-	415
Sub-Standard	-	-	1	-	1
Doubtful	-	-	258	-	258
Doubtful of loss	-	-	240	-	240
<b>Total</b>	<b>56,599</b>	<b>57,137</b>	<b>43,034</b>	<b>63</b>	<b>156,833</b>

	Investments	2012 Loans to customers and accrued interest receivables		Properties foreclosed	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
<b>Total</b>	<b>56,176</b>	<b>75,814</b>	<b>34,595</b>	<b>78</b>	<b>166,663</b>

Investments are stated at fair value. As at 31 December 2013, investments classified as doubtful of loss according to the BoT's definition represented unrealised loss on revaluation of Baht 3 million (2012: Baht 5 million).

**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
**Notes to the financial statements**

**20 Deposits**

**20.1 Classified by type of deposits:**

	2013	2012
	<i>(in million Baht)</i>	
Current	9,845	10,149
Saving	53,826	66,217
Term		
- Less than 6 months	20,325	18,247
- More than 6 months but less than 1 year	216	942
- 1 year and over	-	17
<b>Total</b>	<b>84,212</b>	<b>95,572</b>

**20.2 Classified by currency and residency of depositors:**

	2013			2012		
	Domestic	Foreign	Total	Domestic	Foreign	Total
	<i>(in million Baht)</i>					
Baht	60,592	1,060	61,652	76,140	1,719	77,859
US Dollar	19,688	959	20,647	11,157	1,191	12,348
Other currencies	1,788	125	1,913	3,841	1,524	5,365
<b>Total</b>	<b>82,068</b>	<b>2,144</b>	<b>84,212</b>	<b>91,138</b>	<b>4,434</b>	<b>95,572</b>

**21 Interbank and money market items (liabilities)**

	2013			2012		
	At call	Term	Total	At call	Term	Total
	<i>(in million Baht)</i>					
<b>Domestic</b>						
Commercial banks	11	3,300	3,311	4	3,300	3,304
Specialised financial institutions	-	-	-	-	890	890
Finance, securities and credit foncier companies	1,627	3,200	4,827	699	3,200	3,899
Other financial institutions*	384	-	384	316	-	316
<b>Total domestic</b>	<b>2,022</b>	<b>6,500</b>	<b>8,522</b>	<b>1,019</b>	<b>7,390</b>	<b>8,409</b>
<b>Foreign</b>						
US Dollar	3	-	3	-	-	-
Other currencies	4,481	-	4,481	6,438	-	6,438
<b>Total foreign</b>	<b>4,484</b>	<b>-</b>	<b>4,484</b>	<b>6,438</b>	<b>-</b>	<b>6,438</b>
<b>Total domestic and foreign</b>	<b>6,506</b>	<b>6,500</b>	<b>13,006</b>	<b>7,457</b>	<b>7,390</b>	<b>14,847</b>

\* 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.

**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
**Notes to the financial statements**

**22 Debt issued and borrowings**

	Domestic	2013 Foreign	Total (in million Baht)	Domestic	2012 Foreign	Total
Bills of exchange	91	-	91	2,243	-	2,243
Floating rate notes	14,459	-	14,459	13,796	-	13,796
<b>Total</b>	<b>14,550</b>	<b>-</b>	<b>14,550</b>	<b>16,039</b>	<b>-</b>	<b>16,039</b>

At 31 December 2013, all borrowings were in Thai Baht with interest rates between 1.73% - 2.98% (2012: 0.5% - 3.15%).

**23 Employee benefit obligations**

Statements of financial position obligations for

	2013 (in million Baht)	2012 (in million Baht)
Post employment benefits		
- Legal severance payment plan and gratuity plan	<b>140</b>	<b>117</b>

*Year ended 31 December*

**Statement of comprehensive income:**

**Recognised in profit or loss**

Post employment benefits

- Legal severance payment plan and gratuity plan	16	129
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**Recognised in other comprehensive income**

Actuarial losses recognised during the year

	7	3
<b>Total</b>	<b>23</b>	<b>132</b>

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.

The statement of financial position obligation was determined as follows:

	2013 (in million Baht)	2012 (in million Baht)
Present value of unfunded obligations	140	117
<b>Statement of financial position obligation</b>	<b>140</b>	<b>117</b>

**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
**Notes to the financial statements**

Movement in the present value of the defined benefit obligations:

	2013 (in million Baht)	2012
At 1 January	117	145
Expense recognised in profit or loss		
Current service costs	12	13
Interest cost on obligation	4	4
Curtailment loss	-	112
Benefits paid during the year	-	(160)
Actuarial losses in other comprehensive income	7	3
<b>At 31 December</b>	<b>140</b>	<b>117</b>

The expense is recognised in profit or loss:

	2013 (in million Baht)	2012
Other operating expenses		
- Employee expenses	16	17
Profit from discontinued operation	-	112
<b>Total</b>	<b>16</b>	<b>129</b>

Actuarial losses recognised in other comprehensive income, net of deferred tax

	2013 (in million Baht)	2012
At 1 January	7	4
Recognised during the year	5	3
<b>At 31 December</b>	<b>12</b>	<b>7</b>

Principal actuarial assumptions at the reporting date:

	2013 (%)	2012
Discount rate	4.2	3.8
Future average salary increases	3-12	2-12
Price inflation	3.0	3.5

Assumptions regarding future mortality are based on published statistics and Thailand Mortality Ordinary 2008.

## 24 Provisions

	2013 (in million Baht)	2012
At 1 January	308	-
Provision made (used)	(90)	308
<b>At 31 December</b>	<b>218</b>	<b>308</b>

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

**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
**Notes to the financial statements**

**25 Other liabilities**

	2013	2012
	<i>(in million Baht)</i>	
Accrued interest expense	101	133
Accrued expenses	523	649
Income tax payable	210	391
Marginal deposit	3,850	535
Others	1,355	1,677
<b>Total</b>	<b>6,039</b>	<b>3,385</b>

**26 Commitments and contingent liabilities**

	Baht	2013 Foreign currency	Total amount <i>(in million Baht)</i>	Baht	2012 Foreign currency	Total amount
Guarantees of loans	1	995	996	1	248	249
Other guarantees	13,606	9,612	23,218	12,370	10,552	22,922
Liabilities under unmatured import bills	-	1,816	1,816	2	1,902	1,904
Letters of credit	-	1,911	1,911	1	1,377	1,378
Unused credit lines of overdrafts and credit facilities	50,338	21,912	72,250	52,909	17,131	70,040
<b>Total</b>	<b>63,945</b>	<b>36,246</b>	<b>100,191</b>	<b>65,283</b>	<b>31,210</b>	<b>96,493</b>

As at 31 December 2013, the Branch has received a claim in respect of default on sale and purchase agreement, bills torts, return of property, and guarantee amount 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	2013 <i>(in million Baht)</i>
Building and service lease agreements	1 January 2014 - 30 June 2016	14
Vehicle lease agreements	1 January 2014 - 25 February 2016	9
Equipment lease agreement	1 January 2014 - 31 December 2015	9
		<b>32</b>
Type of lease agreement	Remaining period	2012 <i>(in million Baht)</i>
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
		<b>26</b>

# The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

## Notes to the financial statements

### 27 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 key management personnel and related parties were as follows:

Name of entities/Personnel	Country of incorporation	Nature of relationships
Key management personnel	Thailand	Persons having authority and responsibility for planning, directing and controlling the activities of the Branch, directly or indirectly including any directs (whether executive or otherwise) of the Branch. The Branch's key management personnel consisted of: <ul style="list-style-type: none"> <li>- Chief Executive Officer</li> <li>- Chief Financial Officer</li> <li>- Chief Operating Officer</li> <li>- Chief Risk Officer</li> <li>- Head of Global Market</li> <li>- Head of Global Banking</li> <li>- Head of Commercial Banking</li> <li>- Head of Legal and Compliance</li> <li>- Head of Communications</li> <li>- Head of Human Resources</li> </ul>
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
<b>Other HSBC Group entities</b>		
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 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
HSBC Bank Australia Limited	Australia	HBAP's subsidiary
HSBC Bank Malaysia Berhad	Malaysia	HBAP's subsidiary
HSBC Bank (China) Company Limited	People's Republic of China	HBAP's subsidiary
HSBC Bank (Taiwan) Limited	Taiwan	HBAP's subsidiary
Hang Seng Bank Limited	Hong Kong	HBAP's subsidiary

**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
**Notes to the financial statements**

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

<b>Transactions</b>	<b>Pricing policies</b>
Interest	Based on market rate
Services	Contractually agreed price
Derivatives	Based on market price

Significant transactions for the years ended 31 December 2013 and 2012 with the related parties were as follows:

	2013 (in million Baht)	2012
<b>HBAP</b>		
Fee and commission income	95	105
Interest expense on inter-office borrowing	20	21
Fee and commission expense	42	30
Other income	2	8
Head office expenses	435	739
Other expenses	24	43
<b>Other HSBC Group entities</b>		
Fee and commission income	64	56
Interest expense on inter-office borrowing	1	1
Fee and commission expense	39	26
Other income	-	1
Other expenses	22	23
<b>Key management personnel</b>		
Key management personnel compensation		
Short-term employee benefits	163	146
Post-employment benefits	7	12
Share-based payments	16	5
<b>Total</b>	<b>186</b>	<b>163</b>

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 2013 and 2012, significant balances with related parties consisted of:

	2013 (in million Baht)	2012
<b><i>Net balance of inter-office accounts with head office and other branches of the same juristic person</i></b>		
<b>HBAP</b>		
Nostro accounts	(2)	(56)
Vostro accounts	440	828
Borrowings	16,900	13,325
Accrued expenses	468	730
Other payables	28	-
Other receivables	(1)	(32)
<b>Total</b>	<b>17,833</b>	<b>14,795</b>



**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
**Notes to the financial statements**

	2013	2012
	<i>(in million Baht)</i>	
<b><i>Interbank and money market items (assets)</i></b>		
<b>Other HSBC Group Entities</b>		
HSBC Bank USA, N.A.	380	553
HSBC Bank Plc.	12	141
HSBC Bank Australia Limited	18	9
HSBC Bank Canada	-	6
HSBC Bank Malaysia Berhad	1	1
HSBC Bank (China) Company Limited	-	1
<b>Total</b>	<b>411</b>	<b>711</b>

<b><i>Interbank and money market items (liabilities)</i></b>		
<b>Other HSBC Group entities</b>		
HSBC Bank USA, N.A.	219	290
HSBC Bank Plc.	67	76
HSBC Private Banking Holdings (Suisse) S.A.	44	586
HSBC Bank Malaysia Berhad	73	263
HSBC Bank (Vietnam) Limited	-	200
HSBC Bank Australia Limited	2	201
HSBC Trinkaus & Burkhardt AG	9	186
HSBC Bank (Taiwan) Limited	131	4
Hang Seng Bank Limited	36	43
Others	31	69
<b>Total</b>	<b>612</b>	<b>1,918</b>

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

***Significant agreements with related parties***

**(a) 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.

**(b) 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.

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

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

**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
**Notes to the financial statements**

**29 Interest income**

	2013	2012
	<i>(in million Baht)</i>	
Interbank and money market items	2,163	2,431
Investments and trading transactions	360	680
Investments in debt securities	1,142	1,202
Loans	1,051	1,093
<b>Total interest income</b>	<b>4,716</b>	<b>5,406</b>

**30 Interest expense**

	2013	2012
	<i>(in million Baht)</i>	
Deposits	954	918
Interbank and money market items	284	411
Contribution to Deposit Protection Agency	444	447
Borrowings	681	966
<b>Total interest expense</b>	<b>2,363</b>	<b>2,742</b>

**31 Net fees and service income**

	2013	2012
	<i>(in million Baht)</i>	
Fees and service income		
- Acceptances, aval and guarantees	104	95
- Remittances	309	265
- Underwriting, management and consulting	88	76
- Custody	321	283
- Others	120	163
Total	942	882
Fees and service expenses		
- Remittances	42	48
- Others	164	122
Total	206	170
<b>Net</b>	<b>736</b>	<b>712</b>

**32 Net gain on trading and foreign exchange transactions**

	2013	2012
	<i>(in million Baht)</i>	
Gain on trading and foreign exchange transactions		
- Foreign currencies and foreign currency related derivatives	1,440	1,097
- Interest rate related derivatives	240	824
- Debt instruments	402	209
Total	2,082	2,130
Gain on hedging transactions	1	2
<b>Total</b>	<b>2,083</b>	<b>2,132</b>

**33 Net gain on investments**

	2013	2012
	<i>(in million Baht)</i>	
Gain on sales of available-for-sale investments	34	-
<b>Total</b>	<b>34</b>	<b>-</b>

**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
**Notes to the financial statements**

**34 Bad debts, doubtful accounts expense and impairment loss**

	2013	2012
	<i>(in million Baht)</i>	
Reversal of loans to customers	(67)	(287)
Provision for contingent liabilities	-	22
<b>Total</b>	<b>(67)</b>	<b>(265)</b>

**35 Employee expenses**

	2013	2012
	<i>(in million Baht)</i>	
Wages, salaries and bonus	848	683
Post employment benefits - defined benefit plans	16	15
Post employment benefits - defined contribution plans	45	32
Others	119	114
<b>Total</b>	<b>1,028</b>	<b>844</b>

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.

**36 Other expenses**

	2013	2012
	<i>(in million Baht)</i>	
Expenses allocated from Head Office	233	194
Others	243	413
<b>Total</b>	<b>476</b>	<b>607</b>

**37 Income tax expense**

*Income tax expense recognised in profit or loss*

	Note	2013	2012
		<i>(in million Baht)</i>	
<b>Current tax expense</b>			
Current year		687	1,591
Adjustment for prior year over		(46)	(132)
		<b>641</b>	<b>1,459</b>
<b>Deferred tax expense</b>			
Movements in temporary differences	16	(3)	(147)
Income tax reduction - deferred	16	-	30
<b>Total income tax expense</b>		<b>638</b>	<b>1,342</b>
<i>Attributable to:</i>			
- Income tax expense from continuing operations		<b>638</b>	<b>782</b>
- Income tax expense from discontinued operation		<b>-</b>	<b>560</b>

**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
**Notes to the financial statements**

***Income tax expense recognised in other comprehensive income***

	Before tax	2013 Tax (expense) benefit	Net of tax (in million Baht)	Before tax	2012 Tax (expense) benefit	Net of tax
Available-for-sale investments	(64)	17	(47)	118	(16)	102
Defined benefit plans						
actuarial losses	(7)	2	(5)	(3)	-	(3)
Others	(2)	-	(2)	8	(2)	6
<b>Total</b>	<b>(73)</b>	<b>19</b>	<b>(54)</b>	<b>123</b>	<b>(18)</b>	<b>105</b>

***Reconciliation of effective tax rate***

		2013 (%) Rate	2013 (in million Baht)		2012 (%) Rate	2012 (in million Baht)
Profit before income tax expense			3,372			6,204
Income tax using the Thai corporation tax rate	20.0		674	23.0		1,426
Expenses not deductible for tax purposes	0.3		10	0.3		18
Income tax reduction - deferred	-		-	0.5		30
Over provided in prior year	(1.4)		(46)	(2.1)		(132)
<b>Total</b>	<b>18.9</b>		<b>638</b>	<b>21.7</b>		<b>1,342</b>

***Income tax reduction***

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.

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

The Branch has not adopted the revised TFRS that have been issued but are not yet effective. Those revised TFRS that are applicable to the Branch's operations, which become effective for annual financial periods beginning on or after 1 January in the year indicated in the following table, are as follows:

TFRS	Topic	Year effective
TAS 7 (revised 2012)	Statement of Cash Flows	2014
TAS 18 (revised 2012)	Revenue Recognition	2014
TAS 19 (revised 2012)	Employee Benefits	2014
TAS 21 (revised 2012)	The Effects of Changes in Foreign Exchange Rates	2014
TAS 36 (revised 2012)	Impairment of Assets	2014
TAS 38 (revised 2012)	Intangible Assets	2014

Management expects to adopt and apply these revised TFRS in accordance with the FAP's announcement and has made a preliminary assessment of the potential initial impact on the Branch financial statements of those revised TFRS and expects that there will be no material impact on the financial statements in the period of initial application.