

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

Financial statements for the year ended
31 December 2014
and
Independent Auditor's Report



KPMG Phoomchai Audit Ltd.
50th-51st Floors, Empire Tower
1 South Sathorn Road
Bangkok 10120, Thailand

บริษัท เคพีเอ็มจี ภูมิภาค ไทย สอนบชัย จำกัด
ชั้น 50-51 เอ็มไพร์ทาวเวอร์
1 ถนนสาทรใต้
กรุงเทพฯ 10120

Tel: +66 2677 2000
Fax: +66 2677 2222
www.kpmg.co.th

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 2014, 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 2014, 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
19 February 2015

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

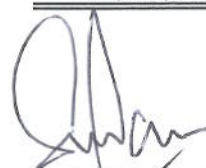
Assets	<i>Note</i>	31 December	
		2014	2013
		<i>(in thousand Baht)</i>	
Cash		66,090	56,381
Interbank and money market items, net	7, 23	53,226,442	58,640,478
Claims on security		7,075,029	3,031,923
Derivative assets	8	38,642,719	43,941,534
Investments, net	9	73,965,520	56,598,973
Loans to customers and accrued interest receivables, net	10		
Loans to customers		58,166,927	42,930,556
Accrued interest receivables		125,433	108,596
Total loans to customers and accrued interest receivables		58,292,360	43,039,152
<i>Less</i> deferred revenue		(9,257)	(4,770)
<i>Less</i> allowance for doubtful accounts	10.4, 11	(1,049,719)	(850,578)
Total loans to customers and accrued interest receivables, net		57,233,384	42,183,804
Customer liabilities under acceptances		-	3,209
Properties foreclosed		-	63,110
Leasehold improvements and equipment, net		34,297	36,912
Intangible asset, net		1,037	2,382
Leasehold right for land and buildings, net	12	173,910	188,238
Deferred tax assets, net	13	139,305	182,383
Other assets, net	14	538,177	315,572
Total assets		231,095,910	205,244,899



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	<i>Note</i>	31 December	
		2014	2013
		<i>(in thousand Baht)</i>	
Liabilities			
Deposits	16	114,102,806	84,212,010
Interbank and money market items	17,23	18,880,918	13,006,641
Liabilities payable on demand		3,177,831	3,819,755
Liabilities to deliver security		7,075,029	3,031,923
Derivative liabilities	8	39,284,689	43,257,334
Debt issued and borrowings	18	15,492,767	14,550,021
Bank liabilities under acceptances		-	3,209
Employee benefit obligations	19	172,987	139,954
Provisions	20	192,565	218,029
Other liabilities	21	4,448,565	6,038,816
Total liabilities		202,828,157	168,277,692
Accounts with head office and other branches of the same juristic person			
Net funds brought in to maintain assets under the Act	6	18,750,000	16,000,000
Net balance of inter-office accounts with head office and other branches of the same juristic person	23	7,166,579	17,833,034
Other components of accounts with head office and other branches of the same juristic person		188,087	149,248
Retained earnings		2,163,087	2,984,925
Total accounts with head office and other branches of the same juristic person		28,267,753	36,967,207
Total liabilities and accounts with head office and other branches of the same juristic person		231,095,910	205,244,899

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

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

		For the year ended 31 December	
	<i>Note</i>	2014	2013
		<i>(in thousand Baht)</i>	
Interest income	25	4,427,293	4,716,402
Interest expense	23, 26	1,984,707	2,363,032
Net interest income		2,442,586	2,353,370
Fees and service income		912,215	941,905
Fees and service expenses		171,240	205,983
Net fees and service income	23, 27	740,975	735,922
Net gain on trading and foreign exchange transactions	28	1,475,750	2,083,031
Net gain on investments	29	3,507	33,942
Other operating income	23	57,594	9,388
Total operating income		4,720,412	5,215,653
Other operating expenses			
Employee expenses	23, 31	1,136,861	1,028,230
Premises and equipment expenses		376,559	332,861
Taxes and duties		59,815	73,560
Other expenses	23, 32	518,637	476,360
Total other operating expenses		2,091,872	1,911,011
Bad debts, doubtful accounts expense and impairment loss (reversal)	30	198,259	(67,076)
Operating profit before income tax expense		2,430,281	3,371,718
Income tax expense	33	502,119	638,467
Net profit		1,928,162	2,733,251
Other comprehensive income			
Gains (losses) on remeasurement of available-for-sale investments		65,270	(63,998)
Actuarial losses	19	(31,777)	(6,743)
Other reserves		7,432	(1,684)
Income tax on other comprehensive income	33	(2,086)	18,420
Other comprehensive income for the year, net of income tax		38,839	(54,005)
Total comprehensive income for the year		1,967,001	2,679,246

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 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		Retained earnings	Total
	Note			Gains (losses) on remeasurement of available-for-sale investments	Other reserve		
				<i>(in thousand Baht)</i>			
Balance at 1 January 2013		11,648,605	14,795,490	124,117	79,136	8,103,069	34,750,417
Comprehensive income for the year							
Net profit		-	-	-	-	2,733,251	2,733,251
Other comprehensive income							
Losses on remeasurement of available-for-sale investments, net of income tax		-	-	(46,927)	-	-	(46,927)
Actuarial losses, net of income tax	19	-	-	-	(5,394)	-	(5,394)
Others, net of income tax		-	-	-	(1,684)	-	(1,684)
Total other comprehensive income		-	-	(46,927)	(7,078)	-	(54,005)
Total comprehensive income for the year		-	-	(46,927)	(7,078)	2,733,251	2,679,246
Increase in fund	6	4,351,395	-	-	-	-	4,351,395
Movement in balance of inter-office accounts with head office and other branches of the same juristic person		-	3,037,544	-	-	-	3,037,544
Profit remittance to head office		-	-	-	-	(7,851,395)	(7,851,395)
Balance at 31 December 2013 and 1 January 2014		16,000,000	17,833,034	77,190	72,058	2,984,925	36,967,207
Comprehensive income for the year							
Net profit		-	-	-	-	1,928,162	1,928,162
Other comprehensive income							
Gains on remeasurement of available-for-sale investments, net of income tax		-	-	56,829	-	-	56,829
Actuarial losses, net of income tax	19	-	-	-	(25,422)	-	(25,422)
Others, net of income tax		-	-	-	7,432	-	7,432
Total other comprehensive income		-	-	56,829	(17,990)	-	38,839
Total comprehensive income for the year		-	-	56,829	(17,990)	1,928,162	1,967,001
Increase in fund	6	2,750,000	-	-	-	-	2,750,000
Movement in balance of inter-office accounts with head office and other branches of the same juristic person		-	(10,666,455)	-	-	-	(10,666,455)
Profit remittance to head office		-	-	-	-	(2,750,000)	(2,750,000)
Balance at 31 December 2014		18,750,000	7,166,579	134,019	54,068	2,163,087	28,267,753

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
2014 2013
(in thousand Baht)

Cash flows from operating activities

Operating profit before income tax expenses	2,430,281	3,371,718
<i>Adjustments to reconcile profit from operations before income tax expense to cash received (paid) from operating activities</i>		
Depreciation and amortisation	28,275	29,834
Bad debt, doubtful accounts expense and impairment loss (reversal)	198,259	(67,076)
Unrealised losses (gains) on revaluation of trading investment	(247,509)	45,606
Gains on disposal of equipment	(233)	(917)
Unrealised losses (gains) on change in foreign exchange	(185,210)	17,022
Unrealised losses (gains) on derivative assets and liabilities	1,349,235	(527,887)
Increase in other reserves	571	2,808
Net interest income	(2,442,586)	(2,353,370)
Proceeds from interest income	4,384,398	4,739,636
Interest paid	(2,004,201)	(2,395,367)
Income tax paid	(450,022)	(822,057)
Profit from operations before changes in operating assets and liabilities	3,061,258	2,039,950

Decrease (increase) in operating assets

Interbank and money market items	5,310,375	18,619,221
Trading investment	5,648,956	(3,719,484)
Loans to customers	(15,198,541)	(7,972,831)
Properties foreclosed	63,110	15,360
Other assets	(92,811)	1,228,692

Increase (decrease) in operating liabilities

Deposits	30,040,658	(11,864,429)
Interbank and money market items	5,877,088	(1,840,490)
Liabilities payable on demand	(641,924)	(538,523)
Debt issued and borrowings	942,745	(1,488,552)
Employee benefit obligations	1,256	15,988
Provisions	(23,597)	(90,316)
Other liabilities	(1,574,999)	2,862,522
Net cash provided by (used in) operating activities	33,413,574	(2,732,892)

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
2014 2013
(in thousand Baht)

Cash flows from investing activities

Decrease (increase) in available-for-sale investments	(22,725,788)	3,165,325
Purchases of equipment	(11,855)	(19,499)
Proceeds from sales of equipment	233	2,372
Net cash provided by (used in) investing activities	<u>(22,737,410)</u>	<u>3,148,198</u>

Cash flows from financing activities

Profit remitted to head office	-	(3,500,000)
Increase (decrease) in net balance of inter-office accounts with head office and other branches of the same juristic person	(10,666,455)	3,037,544
Net cash used in financing activities	<u>(10,666,455)</u>	<u>(462,456)</u>

Net increase (decrease) in cash	9,709	(47,150)
Cash at 1 January	56,381	103,531
Cash at 31 December	<u>66,090</u>	<u>56,381</u>

Non-cash transactions

Funds brought in to maintain assets under the Act transferred from retained earnings which remitted profit to head office	2,750,000	4,351,395
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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 19 February 2015.

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 with the Bank of Thailand 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”, and any other supplementary BoT notification.

The FAP has issued the following new and revised TFRS relevant to the Branch’s operations and effective for accounting periods beginning on or after 1 January 2014:

TFRS	Topic
TAS 1 (revised 2012)	Presentation of financial statements
TAS 7 (revised 2012)	Statement of Cash Flows
TAS 12 (revised 2012)	Income Taxes
TAS 17 (revised 2012)	Leases
TAS 18 (revised 2012)	Revenue
TAS 19 (revised 2012)	Employee Benefits
TAS 21 (revised 2012)	The Effects of Changes in Foreign Exchange Rates
TAS 24 (revised 2012)	Related Party Disclosures
TAS 36 (revised 2012)	Impairment of Assets
TAS 38 (revised 2012)	Intangible Assets
TFRS 2 (revised 2012)	Share-based Payment
TFRS 5 (revised 2012)	Non-current Assets held for Sale and Discontinued Operations

The initial application of these new and revised TFRS has resulted in changes in certain of the Branch’s accounting policies. These changes have no material effect on the financial statements.

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Notes to the financial statements

In addition to the above new revised TFRS, the FAP has issued a number of other new and 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 new and revised TFRS that are relevant to the Branch's operations are disclosed in note 34.

(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;

(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 8	Derivatives
Note 11	Allowance for doubtful accounts

3 Significant accounting policies

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

(a) *Foreign currency*

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency 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.

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Notes to the financial statements

(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.

Investment recognition

The Branch recognised and eliminated such items in these financial statements using the settlement date method.

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.

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Notes to the financial statements

(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) *Troubled debt restructuring*

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

(g) *Properties 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.

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Notes to the financial statements

(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.

(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.

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

Notes to the financial statements

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.

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.

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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.

(l) Financial instruments

Derivative

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

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

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

The Branch designated derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge) or (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge). Hedge accounting is applied for derivatives designated as fair value or cash flow hedges, provided certain criteria are met.

Fair value hedge

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

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

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

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

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.

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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.

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.

(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.

(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.

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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.

4 Financial risk management

The Branch has following risks from financial instruments:

- Credit risk
- Market risk
- Liquidity risk

4.1 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.

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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 derivatives contracts will not adhere to the terms of the contract with the Branch when settlement becomes due.

Derivatives contracts classified by type and at regulatory credit equivalent values as at 31 December 2014 and 2013 were as follows:

	2014	2013
	<i>(in million Baht)</i>	
Forward exchange contracts	17,655	23,248
Forward interest rate contracts	23,635	19,197
Equity option	224	36
Total	41,514	42,481

4.2 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.

As at 31 December 2014 and 2013, significant financial assets and liabilities classified by types of interest rate are as follows:

	2014			
	Floating interest rate	Fixed interest rate	Non interest bearing	Total
	<i>(in million Baht)</i>			
Financial assets				
Cash	-	-	66	66
Interbank and money market items, net	6,316	45,921	989	53,226
Investments, net	-	41,826	32,140	73,966
Loans to customers ⁽¹⁾	31,875	25,716	567	58,158
Total financial assets	38,191	113,463	33,762	185,416

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	2014			Total
	Floating interest rate	Fixed interest rate	Non interest bearing	
	<i>(in million Baht)</i>			
<i>Financial liabilities</i>				
Deposits	83,818	20,747	9,538	114,103
Interbank and money market items	3,526	11,125	4,230	18,881
Liabilities payable on demand	-	-	3,178	3,178
Debt issued and borrowings	15,398	95	-	15,493
Total financial liabilities	102,742	31,967	16,946	151,655
Effect of derivatives held for risk management	(34,654)	34,654	448,721	448,721
Avals to bill and guarantee on loan	-	-	618	618
Letters of credit	-	-	1,262	1,262
Other contingencies	-	-	112,650	112,650

⁽¹⁾ Loans to customers net of deferred revenue

	2013			Total
	Floating interest rate	Fixed interest rate	Non interest bearing	
	<i>(in million Baht)</i>			
<i>Financial assets</i>				
Cash	-	-	56	56
Interbank and money market items, net	4,600	52,354	1,686	58,640
Investments, net	-	24,922	31,677	56,599
Loans to customers ⁽¹⁾	28,498	14,063	365	42,926
Total financial assets	33,098	91,339	33,784	158,221
<i>Financial liabilities</i>				
Deposits	57,080	20,542	6,590	84,212
Interbank and money market items	2,670	6,500	3,836	13,006
Liabilities payable on demand	-	-	3,820	3,820
Debt issued and borrowings	14,459	91	-	14,550
Total financial liabilities	74,209	27,133	14,246	115,588
Effect of derivatives held for risk management	(72,640)	72,640	663,072	663,072
Avals to bill and guarantee on loan	-	-	996	996
Letters of credit	-	-	1,911	1,911
Other contingencies	-	-	97,284	97,284

⁽¹⁾ Loans to customers net of deferred revenue

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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 2014 and 2013 were as follows:

	2014					Total	Average interest rate (% per annum)
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing		
	<i>(in million Baht)</i>						
Financial assets							
Cash	-	-	-	-	66	66	-
Interbank and money market items, net	52,168	69	-	-	989	53,226	2.15
Investments, net	23,888	19,747	23,686	6,413	232	73,966	2.42
Loans to customers and accrued interest receivable, net	45,331	9,741	1,791	245	125	57,233	2.63
Other assets	82	-	-	-	456	538	-
Total financial assets	121,469	29,557	25,477	6,658	1,868	185,029	
Financial liabilities							
Deposits	102,578	1,987	-	-	9,538	114,103	0.88
Interbank and money market items	14,651	-	-	-	4,230	18,881	2.04
Liabilities payable on demand	-	-	-	-	3,178	3,178	-
Debt issued and borrowings	12,957	2,441	95	-	-	15,493	3.92
Other liabilities	2,810	-	-	-	1,639	4,449	-
Total financial liabilities	132,996	4,428	95	-	18,585	156,104	
Effect of derivatives held for risk management	(3,325)	(6,536)	(2,573)	12,433	517,644	517,644	
Avals to bill and guarantee on loan	-	-	-	-	618	618	
Letters of credit	-	-	-	-	1,262	1,262	
Other contingencies	-	-	-	-	112,650	112,650	

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	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>						
Financial assets							
Cash	-	-	-	-	56	56	-
Interbank and money market items, net	56,754	200	-	-	1,686	58,640	2.79
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	-
Total financial assets	102,179	36,576	15,178	1,476	2,389	157,798	
Financial liabilities							
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	-
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
Total financial liabilities	100,658	4,443	91	-	16,438	121,630	
Effect of derivatives held for risk management							
	(4,780)	(14,452)	2,694	16,538	736,493	736,493	
Avals to bill and guarantee on loan	-	-	-	-	996	996	
Letters of credit	-	-	-	-	1,911	1,911	
Other contingencies	-	-	-	-	97,284	97,284	

The Branch manages interest rate risk by means of an appropriate structuring of holdings in assets and liabilities with different repricing dates, taking into account the direction of market interest rates, in order to generate a suitable yield while maintaining risk at acceptable levels.

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(b) Foreign exchange 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 2014 and 2013, the Branch has net open position assets (liabilities) denominated in the various currencies as follows;

	2014	2013
	<i>(in thousand Baht)</i>	
Net foreign currency exposure*		
US Dollar	3,094	13,339
Euro	(1,458)	1,021
Yen	(66)	(366)
Pound	(28)	35
Others	478	564

* No non-performing loans amounting in foreign currency exposure at 31 December 2014 (2013: Baht 54 million).

(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.

4.3 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.

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A maturity analysis of financial assets and liabilities as at 31 December 2014 and 2013 was as follows:

	At call	Less than 3 months	2014			No maturity	Total
			3 months to 1 year	1 to 5 years	Over 5 years		
<i>(in million Baht)</i>							
Financial assets							
Cash	-	-	-	-	-	66	66
Interbank and money market items, net	1,114	52,043	69	-	-	-	53,226
Derivative assets	67	2,142	4,031	22,662	9,741	-	38,643
Investments, net	-	23,888	19,747	23,686	6,413	232	73,966
Loans to customers and accrued interest receivable, net	-	35,544	6,696	13,396	1,597	-	57,233
Other assets	-	82	-	-	-	456	538
Total financial assets	1,181	113,699	30,543	59,744	17,751	754	223,672
Financial liabilities							
Deposits	93,356	18,760	1,987	-	-	-	114,103
Interbank and money market items	7,756	11,125	-	-	-	-	18,881
Liabilities payable on demand	3,178	-	-	-	-	-	3,178
Derivative liabilities	33	2,163	6,045	22,738	8,306	-	39,285
Debt issued and borrowings	-	-	313	8,618	6,562	-	15,493
Other liabilities	-	2,810	-	-	-	1,639	4,449
Total financial liabilities	104,323	34,858	8,345	31,356	14,868	1,639	195,389
Liquidity gap, net	(103,142)	78,841	22,198	28,388	2,883	(885)	28,283
2013							
	At call	Less than 3 months	2013			No maturity	Total
			3 months to 1 year	1 to 5 years	Over 5 years		
<i>(in million Baht)</i>							
Financial assets							
Cash	-	-	-	-	-	56	56
Interbank and money market items, net	1,809	56,631	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
Total financial assets	1,934	97,451	43,935	47,389	10,439	592	201,740
Financial liabilities							
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
Total financial liabilities	74,183	35,502	11,786	28,610	12,617	2,189	164,887
Liquidity gap, net	(72,249)	61,949	32,149	18,779	(2,178)	(1,597)	36,853

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5 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 2014 and 2013, a summary of the carrying value and fair value of financial instruments was as follows:

	2014		2013	
	Carrying value	Fair value	Carrying value	Fair value
	<i>(in million Baht)</i>			
<i>Financial assets</i>				
Cash	66	66	56	56
Interbank and money market items, net	53,226	53,226	58,640	58,640
Derivative assets	38,643	38,643	43,942	43,942
Investments, net	73,966	73,966	56,599	56,599
Loans to customers and accrued interest receivables, net	57,233	57,233	42,184	42,184
Total financial assets	223,134	223,134	201,421	201,421
<i>Financial liabilities</i>				
Deposits	114,103	114,103	84,212	84,212
Interbank and money market items	18,881	18,881	13,006	13,006
Liabilities payable on demand	3,178	3,178	3,820	3,820
Derivative liabilities	39,285	39,285	43,257	43,257
Debt issued and borrowings	15,493	15,493	14,550	14,550
Total financial liabilities	190,940	190,940	158,845	158,845

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 3.

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.

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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.

6 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 2014 and 2013, can be summarised as follows:

	2014	2013
	<i>(in million Baht)</i>	
Assets maintained under Section 32	20,940	16,586
Sum of net capital for maintenance of assets under Section 32 and net balance of inter-office accounts		
Net fund brought in to maintenance assets under Section 32	18,750	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	7,317	17,922
Total	26,067	33,922
Regulatory Capital <i>(in million Baht)</i>	18,749	16,000
Capital Adequacy Ratio (%)	19.06	18.34

As at 31 December 2014 and 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 2014 and 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 for Capital Adequacy Ratio 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 2014 and 2013 within 4 months after the year end date as indicated in the notification through the Branch's website www.hsbc.co.th.

In 2014, the Bank of Thailand approved the increase in capital of the Branch amounting from Baht 16,000 million to Baht 18,750 million being effective on 25 September 2014. The Branch transferred the amount from retained earnings with the approval from head office.

In 2013, the Bank of Thailand approved the increase in capital of the Branch amounting from Baht 11,649 million to Baht 16,000 million being effective on 4 July 2013. The branch transferred the amount from retained earnings with the approval from head office.

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7 Interbank and money market items, net (assets)

	2014		Total (in million Baht)	2013		Total
	At call	Term		At call	Term	
Domestic						
The Bank of Thailand and Financial Institutions						
Development Fund	701	4,986	5,687	887	12,798	13,685
Commercial banks	163	46,944	47,107	210	43,655	43,865
Other financial institutions	200	-	200	300	-	300
Add accrued interest receivable	-	80	80	-	184	184
Less deferred revenue allowance for doubtful accounts	(2)	(2)	(2)	(3)	(6)	(9)
Total domestic	1,062	52,003	53,065	1,394	56,628	58,022
Foreign						
US Dollar	-	109	109	380	196	576
Euro	19	-	19	2	-	2
Other currencies	33	-	33	33	7	40
Total foreign	52	109	161	415	203	618
Total domestic and foreign	1,114	52,112	53,226	1,809	56,831	58,640

8 Derivatives

8.1 Derivatives held for trading

As at 31 December 2014 and 2013, fair value and notional amount of derivatives classified by type of risks are as follows:

Type of risk	Fair value		2014		Total
	Assets	Liabilities	Notional amount		
			Upto 1 year (in million Baht)	Over 1 year	
Exchange rate	13,220	13,893	495,014	307,712	802,726
Interest rate	25,303	25,158	583,541	1,345,793	1,929,334
Others					
- Equities	96	85	-	1,560	1,560
- Bond	24	149	350	4,070	4,420
Total	38,643	39,285	1,078,905	1,659,135	2,738,040
Type of risk	Fair value		2013		Total
	Assets	Liabilities	Notional amount		
			Upto 1 year (in million Baht)	Over 1 year	
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
Total	43,942	43,229	1,719,610	1,841,656	3,561,266

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As at 31 December 2014 and 2013, proportions of the notional amount of derivative transactions, classified by counterparties, consisted of:

	2014	2013
	(%)	
Counterparty		
Financial institutions	49	54
Related parties	44	39
Third parties	7	7
Total	100	100

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.

8.2 Derivatives held for fair value hedge

As at 31 December 2013, 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 within one year. The fair value and notional amount of derivatives held for fair value hedging, classified by type of risk, consisted of:

Type of risk	2013	
	Liabilities	Notional Amount
	(in million Baht)	
Interest rate	28	949
Total	28	949

9 Investments, net

9.1 Classification of investment in securities

As at 31 December 2014 and 2013, the Branch classified investment types, as follows:

	2014	2013
	Fair value	Fair value
	(in million Baht)	
Trading investments		
Government and state enterprise securities	13,005	19,789
Private debt instruments	1,838	455
Total	14,843	20,244
Available-for-sale investments		
Government and state enterprise securities	56,801	36,135
Private debt instruments	2,090	-
Marketable equity shares - domestic	232	220
Total	59,123	36,355
Total investments, net	73,966	56,599

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As at 31 December 2014, investments classified as available-for-sale with market values of Baht 20,940 million (2013: Baht 16,586 million) were maintained as capital fund under the Bank of Thailand's regulation.

9.2 Gain (loss) on fair value changes available-for-sale investments as follows:

	2014	2013
	<i>(in million Baht)</i>	
Gain on investments		
Debt securities	136	88
Equity securities	32	20
Loss on investments		
Debt securities	(1)	(6)
Total	<u>167</u>	<u>102</u>
Less deferred tax	(33)	(25)
Net	<u>134</u>	<u>77</u>

10 Loans to customers and accrued interest receivables, net

10.1 Classified by type of loans

	2014	2013
	<i>(in million Baht)</i>	
Overdrafts	3,246	1,775
Loans	45,476	35,998
Bills	9,445	5,158
Less deferred revenue	(9)	(5)
Total loans to customers net from deferred revenue	<u>58,158</u>	<u>42,926</u>
Add accrued interest receivables	125	108
Total loans to customers net from deferred revenue add accrued interest receivables	58,283	43,034
Less allowance for doubtful accounts		
- BoT's minimum requirement		
- individual approach	(901)	(787)
- Allowance in excess	(149)	(63)
Total loans to customers and accrued interest receivables, net	<u>57,233</u>	<u>42,184</u>

10.2 Classified by currency and residency of debtors

	2014			2013		
	Domestic	Foreign	Total	Domestic	Foreign	Total
	<i>(in million Baht)</i>					
Baht	39,019	-	39,019	28,261	-	28,261
US Dollar	15,019	3,769	18,788	11,487	2,938	14,425
Other currencies	351	-	351	240	-	240
Total*	<u>54,389</u>	<u>3,769</u>	<u>58,158</u>	<u>39,988</u>	<u>2,938</u>	<u>42,926</u>

* Loans to customers net of deferred revenue

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10.3 Classified by type of business and loan classification

	Pass	2014		Total
		Special mention <i>(in million Baht)</i>	Doubtful of loss	
Agriculture and mining	2,600	-	-	2,600
Industrial and commercial	36,519	5	365	36,889
Property and construction	748	-	-	748
Infrastructure and service	17,537	-	-	17,537
Home mortgages	262	-	-	262
Others	122	-	-	122
Total*	<u>57,788</u>	<u>5</u>	<u>365</u>	<u>58,158</u>

* Loans to customers net of deferred revenue

	Pass	Special mention	2013		Doubtful of loss	Total
			Substandard	Doubtful <i>(in million Baht)</i>		
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
Total*	<u>42,023</u>	<u>404</u>	<u>1</u>	<u>258</u>	<u>240</u>	<u>42,926</u>

* Loans to customers net of deferred revenue

10.4 Loans classified by grade

	2014			Allowance for doubtful accounts <i>(in million Baht)</i>
	Loans to customers and accrued interest receivables <i>(in million Baht)</i>	Net amount to set up allowance for doubtful accounts <i>(in million Baht)</i>	Rate used to set up allowance for doubtful accounts (%)	
Allowance as per BoT's minimum requirement				
- Pass	57,913	55,476	1	555
- Special mention	5	5	2	-
- Doubtful of loss	365	346	100	346
Total	<u>58,283</u>	<u>55,827</u>		<u>901</u>
Allowance in excess				149
Total*				<u>1,050</u>

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

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	2013			Allowance for doubtful accounts (in million Baht)
	Loans to customers and accrued interest receivables (in million Baht)	Net amount to set up allowance for doubtful accounts (in million Baht)	Rate used to set up allowance for doubtful accounts (%)	
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
Total	43,034	41,360		787
Allowance in excess				63
Total *				850

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

10.5 Non-performing loans

As at 31 December 2014 and 2013 the Branch had non-performing loans gross ("NPLs Gross") (including financial institutions) based on the BoT notification as follows:

	2014	2013
NPLs, gross (in million Baht)	365	499
Loans used for NPLs ratio calculation ⁽¹⁾ (in million Baht)	110,395	99,880
Percentage of total loans ⁽²⁾	0.33	0.50

(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 2014 and 2013 the Branch had non-performing loans net ("NPLs Net") (including financial institutions) based on the BoT notification as follows:

	2014	2013
NPLs, net (in million Baht)	15	124
Loans used for NPLs, net ratio calculation ⁽¹⁾ (in million Baht)	110,045	99,504
Percentage of total loans ⁽²⁾	0.01	0.12

(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 2014, Allowance for doubtful account of Baht 350 million (2013: Baht 375 million) have been provided against the Branch's non-performing loans being those classified as substandard, doubtful and doubtful of loss.

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11 Allowance for doubtful accounts

Movements in the allowance for doubtful accounts for loans to customers during the years ended 31 December 2014 and 2013 consisted of:

	2014					Total
	Pass	Special mention	Substandard	Doubtful	Doubtful of loss	
	<i>(in million Baht)</i>					
Beginning balance	467	8	1	157	217	850
Doubtful accounts charge	233	(8)	(1)	(157)	134	201
Bad debts written off	-	-	-	-	(1)	(1)
Ending balance	700	-	-	-	350	1,050

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

12 Leasehold right for land and buildings, net

	2014	2013
	<i>(in million Baht)</i>	
Cost	909	909
Less accumulated amortisation	(466)	(452)
Less loss on impairment	(269)	(269)
Net	174	188

13 Deferred tax assets, net

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

	2014	2013
	<i>(in million Baht)</i>	
Deferred tax assets	227	216
Deferred tax liabilities	(88)	(34)
Net	139	182

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Movements in deferred tax assets and liabilities during the year ended 31 December 2014 and 2013 were as follows:

	At 1 January 2014	(Charged)/ Credited to		At 31 December 2014
		Profit or loss (note 33)	Other comprehensive income	
<i>(in million Baht)</i>				
<i>Deferred tax assets</i>				
Allowance for doubtful accounts and provision for contingent liabilities	39	33	-	72
Provision for impairment	47	(4)	-	43
Others	130	(24)	6	112
Total	216	5	6	227
<i>Deferred tax liabilities</i>				
Investments	29	50	8	87
Borrowings and financial instruments	5	(4)	-	1
Total	34	46	8	88
Net	182	(41)	(2)	139
<i>(in million Baht)</i>				
	At 1 January 2013	(Charged)/ Credited to		At 31 December 2013
		Profit or loss (note 33)	Other comprehensive income	
<i>(in million Baht)</i>				
<i>Deferred tax assets</i>				
Allowance for doubtful accounts and provision for contingent liabilities	43	(4)	-	39
Provision for impairment	51	(4)	-	47
Others	136	(7)	1	130
Total	230	(15)	1	216
<i>Deferred tax liabilities</i>				
Investments	55	(9)	(17)	29
Borrowings and financial instruments	14	(9)	-	5
Total	69	(18)	(17)	34
Net	161	3	18	182

14 Other assets, net

	2014	2013
	<i>(in million Baht)</i>	
Accrued income receivable	369	238
Margin deposits	110	32
Others	59	46
Total	538	316

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
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15 Classified assets

As at 31 December 2014 and 2013, 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:

2014					
	Investments	Interbank and money market <i>(in million Baht)</i>	Loans to customers and accrued interest receivables	Total	
Pass	73,966	52,317	57,913	184,196	
Special mention	-	-	5	5	
Doubtful of loss	-	-	365	365	
Total	<u>73,966</u>	<u>52,317</u>	<u>58,283</u>	<u>184,566</u>	
2013					
	Investments	Interbank and money market	Loans to customers and accrued interest receivables <i>(in million Baht)</i>	Properties foreclosed	Total
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
Total	<u>56,599</u>	<u>57,137</u>	<u>43,034</u>	<u>63</u>	<u>156,833</u>

Investments are stated at fair value. As at 31 December 2014, investments classified as doubtful of loss according to the BoT's definition represented unrealised loss on revaluation of Baht 7 million (2013: Baht 3 million).

16 Deposits

16.1 Classified by type of deposits:

	2014	2013
	<i>(in million Baht)</i>	
Current	22,338	9,845
Saving	71,018	53,826
Term		
- Less than 6 months	20,556	20,325
- More than 6 months but less than 1 year	191	216
Total	<u>114,103</u>	<u>84,212</u>

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16.2 Classified by currency and residency of depositors:

	2014			2013		
	Domestic	Foreign	Total	Domestic	Foreign	Total
	<i>(in million Baht)</i>					
Baht	78,773	1,123	79,896	60,592	1,060	61,652
US Dollar	31,826	676	32,502	19,688	959	20,647
Other currencies	1,693	12	1,705	1,788	125	1,913
Total	112,292	1,811	114,103	82,068	2,144	84,212

17 Interbank and money market items (liabilities)

	2014			2013		
	At call	Term	Total	At call	Term	Total
	<i>(in million Baht)</i>					
Domestic						
Commercial banks	4	1,800	1,804	11	3,300	3,311
Specialised financial institutions	-	6,000	6,000	-	-	-
Finance, securities and credit finance companies	1,408	3,200	4,608	1,627	3,200	4,827
Other financial institutions	514	125	639	384	-	384
Total domestic	1,926	11,125	13,051	2,022	6,500	8,522
Foreign						
US Dollar	1,115	-	1,115	3	-	3
Other currencies	4,715	-	4,715	4,481	-	4,481
Total foreign	5,830	-	5,830	4,484	-	4,484
Total domestic and foreign	7,756	11,125	18,881	6,506	6,500	13,006

18 Debt issued and borrowings

	2014	2013
	Domestic	Domestic
	<i>(in million Baht)</i>	
Bills of exchange	95	91
Floating rate notes	15,398	14,459
Total	15,493	14,550

At 31 December 2014, all borrowings were in Thai Baht with interest rates between 1.89% - 2.25% per annum (2013: 1.73% - 2.98% per annum).

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19 Employee benefit obligations

Statements of financial position obligations for

	2014	2013
	<i>(in million Baht)</i>	
Post employment benefits		
- Legal severance payment plan and gratuity plan	173	140

	2014	2013
	<i>(in million Baht)</i>	

Year ended 31 December

Statement of comprehensive income:

Recognised in profit or loss

Post employment benefits		
- Legal severance payment plan and gratuity plan	20	16

Recognised in other comprehensive income

Actuarial losses recognised during the year	32	7
Total	52	23

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:

	2014	2013
	<i>(in million Baht)</i>	
Present value of unfunded obligations	173	140
Statement of financial position obligation	173	140

Movement in the present value of the defined benefit obligations:

	2014	2013
	<i>(in million Baht)</i>	
At 1 January	140	117
Expense recognised in profit or loss		
Current service costs	14	12
Interest cost on obligation	6	4
Benefits paid during the year	(19)	-
Actuarial losses in other comprehensive income	32	7
At 31 December	173	140

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The expense is recognised in profit or loss:

	2014	2013
	<i>(in million Baht)</i>	
Other operating expenses		
- Employee expenses	20	16
Total	20	16

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

	2014	2013
	<i>(in million Baht)</i>	
At 1 January	12	7
Recognised during the year	26	5
At 31 December	38	12

Principal actuarial assumptions at the reporting date:

	2014	2013
	<i>(%)</i>	
Discount rate	3.6	4.2
Future average salary increases	3-12	3-12
Price inflation	3.0	3.0

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

20 Provisions

	2014	2013
	<i>(in million Baht)</i>	
At 1 January	218	308
Provision used	(25)	(90)
At 31 December	193	218

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

21 Other liabilities

	2014	2013
	<i>(in million Baht)</i>	
Accrued interest expense	81	101
Accrued expenses	517	523
Income tax payable	221	210
Marginal deposit	2,810	3,850
Others	820	1,355
Total	4,449	6,039

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22 Commitments and contingent liabilities

	2014			2013		
	Baht	Foreign currency	Total amount <i>(in million Baht)</i>	Baht	Foreign currency	Total amount
Guarantees of loans	1	617	618	1	995	996
Other guarantees	17,767	11,947	29,714	13,606	9,612	23,218
Liabilities under unmatured import bills	56	1,748	1,804	-	1,816	1,816
Letters of credit	14	1,248	1,262	-	1,911	1,911
Unused credit lines of overdrafts and credit facilities	60,504	20,628	81,132	50,338	21,912	72,250
Total	78,342	36,188	114,530	63,945	36,246	100,191

As at 31 December 2014, 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 (*2013: 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

		2014 <i>(in million Baht)</i>
Type of lease agreement	Remaining period	
Building and service lease agreements	1 January 2015 - 30 June 2016	8
Vehicle lease agreements	1 January 2015 - 31 August 2017	14
Equipment lease agreement	1 January 2015 - 31 December 2015	5
		27
		2013 <i>(in million Baht)</i>
Type of lease agreement	Remaining period	
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
		32

23 Related parties

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

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Relationships with significant 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"> - Chief Executive Officer - Chief Financial Officer - Chief Operating Officer - Chief Risk Officer - Head of Global Market - Head of Global Banking - Head of Commercial Banking - Head of Regulatory Compliance - Head of Legal - Head of Communications - Head of Human Resources
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
HSBC Group entities		
HSBC Bank Plc.	England	HSBC Holdings Plc.'s subsidiary
HSBC Bank USA, N.A.	United States	HSBC Holdings Plc.'s subsidiary
HSBC Private Banking Holdings (Suisse) S.A.	Switzerland	HSBC Holdings Plc.'s subsidiary
HSBC Trinkaus & Burkhardt AG	Germany	HSBC Holdings Plc.'s subsidiary
HSBC Bank Canada	Canada	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 pricing policies for particular types of transactions are explained further below:

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

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Significant transactions for the years ended 31 December 2014 and 2013 with key management personnel and the related parties were as follows:

	2014	2013
	<i>(in million Baht)</i>	
HBAP		
Fee and commission income	85	95
Interest expense on inter-office borrowing	12	20
Fee and commission expense	40	42
Other income	-	2
Allocation expenses from Head office	501	435
Other expenses	49	24
HSBC Group entities		
Fee and commission income	73	64
Interest expense on inter-office borrowing	-	1
Fee and commission expense	29	39
Other income	3	-
Other expenses	19	22
Key management personnel		
Key management personnel compensation		
Short-term employee benefits	190	163
Post-employment benefits	10	7
Share-based payments	10	16
Total	210	186

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.

Significant balances with related parties as at 31 December 2014 and 2013 consisted of:

	2014	2013
	<i>(in million Baht)</i>	
Interbank and money market items (assets)		
HSBC Group Entities		
HSBC Bank USA, N.A.	-	380
HSBC Bank Plc.	35	12
HSBC Bank Australia Limited	8	18
HSBC Bank Canada	1	-
HSBC Bank Malaysia Berhad	1	1
Total	45	411
Interbank and money market items (liabilities)		
HSBC Group entities		
HSBC Bank USA, N.A.	1,140	219
HSBC Bank Plc.	515	67
HSBC Bank Australia Limited	158	2
Hang Seng Bank Limited	54	36
HSBC Bank Malaysia Berhad	43	73
HSBC Private Banking Holdings (Suisse) S.A.	24	44
HSBC Trinkaus & Burkhardt AG	26	9
HSBC Bank (Taiwan) Limited	2	131
Others	67	31
Total	2,029	612

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	2014	2013
	<i>(in million Baht)</i>	
<i>Net balance of inter-office accounts with head office and other branches of the same juristic person</i>		
HBAP		
Nostro accounts	(48)	(2)
Vostro accounts	1,497	440
Borrowings	5,209	16,900
Accrued expenses	510	468
Other payables	2	28
Other receivables	(3)	(1)
Total	<u>7,167</u>	<u>17,833</u>

The Branch enters into certain treasury transactions, including swap, foreign exchange, and option contracts, with 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.

24 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.

25 Interest income

	2014	2013
	<i>(in million Baht)</i>	
Interbank and money market items	1,422	2,163
Investments and trading transactions	404	360
Investments in debt securities	1,320	1,142
Loans to customers	1,281	1,051
Total	<u>4,427</u>	<u>4,716</u>

26 Interest expense

	2014	2013
	<i>(in million Baht)</i>	
Deposits	679	954
Interbank and money market items	298	284
Contribution to Deposit Protection Agency	430	444
Borrowings	578	681
Total	<u>1,985</u>	<u>2,363</u>

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27 Net fees and service income

	2014	2013
	<i>(in million Baht)</i>	
Fees and service income		
- Acceptances, aval and guarantees	114	104
- Remittances	301	309
- Underwriting, management and consulting	91	88
- Custody	327	321
- Others	79	120
Total	<u>912</u>	<u>942</u>
Fees and service expenses		
- Remittances	48	42
- Others	123	164
Total	<u>171</u>	<u>206</u>
Net	<u>741</u>	<u>736</u>

28 Net gain on trading and foreign exchange transactions

	2014	2013
	<i>(in million Baht)</i>	
Gain on trading and foreign exchange transactions		
- Foreign currencies and foreign currency related derivatives	1,283	1,440
- Interest rate related derivatives	(535)	240
- Debt instruments	728	402
Total	<u>1,476</u>	<u>2,082</u>
Gain on hedging transactions	-	1
Total	<u>1,476</u>	<u>2,083</u>

29 Net gain on investments

	2014	2013
	<i>(in million Baht)</i>	
Gain on sales of available-for-sale investments	4	34
Total	<u>4</u>	<u>34</u>

30 Bad debts, doubtful accounts expense and impairment loss

	2014	2013
	<i>(in million Baht)</i>	
Provision for doubtful accounts (reversal)	198	(67)
Total	<u>198</u>	<u>(67)</u>

31 Employee expenses

	2014	2013
	<i>(in million Baht)</i>	
Wages, salaries and bonus	941	848
Post employment benefits - defined benefit plans	20	16
Post employment benefits - defined contribution plans	47	45
Others	129	119
Total	<u>1,137</u>	<u>1,028</u>

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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.

32 Other expenses

	2014	2013
	<i>(in million Baht)</i>	
Expenses allocated from Head Office	267	233
Others	252	243
Total	<u>519</u>	<u>476</u>

33 Income tax expense

Income tax expense recognised in profit or loss

	<i>Note</i>	2014	2013
		<i>(in million Baht)</i>	
Current tax expense			
Current year		468	687
Over provided in prior year		(7)	(46)
		<u>461</u>	<u>641</u>
Deferred tax expense			
Movements in temporary differences	13	41	(3)
Total income tax expense		<u>502</u>	<u>638</u>

Income tax expense recognised in other comprehensive income

	Before tax	2014 Tax (expense) benefit	Net of tax	Before tax	2013 Tax (expense) benefit	Net of tax
	<i>(in million Baht)</i>					
Available-for-sale investments	65	(8)	57	(64)	17	(47)
Actuarial losses	(32)	6	(26)	(7)	2	(5)
Others	8	-	8	(2)	-	(2)
Total	<u>41</u>	<u>(2)</u>	<u>39</u>	<u>(73)</u>	<u>19</u>	<u>(54)</u>

Reconciliation of effective tax rate

	2014	2013
	(%) Rate	(%) Rate
	<i>(in million Baht)</i>	<i>(in million Baht)</i>
Profit before income tax expense	2,430	3,372
Income tax using the Thai corporation tax rate	20.0	20.0
Expenses not deductible for tax purposes	0.9	0.3
Over provided in prior year	(0.3)	(1.4)
Total	<u>20.6</u>	<u>18.9</u>

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Notes to the financial statements

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. Royal Decree No. 577 B.E. 2557 dated 10 November 2014 extends the reduction to 20% for the accounting period 2015 which begins on or after 1 January 2015.

The branch has applied the reduced tax rate of 20% in measuring deferred tax assets and liabilities as at 31 December 2014 and 2013 in accordance with the clarification issued by the FAP in 2012.

34 Thai Financial Reporting Standards (TFRS) not yet adopted

A number of new and revised TFRS have been issued but are not yet effective and have not been applied in preparing these financial statements. Those new and revised TFRS that may be relevant to the Branch's operations, which become effective for annual financial periods beginning on or after 1 January in the year indicated, are set out below. The Branch does not plan to adopt these TFRS early.

TFRS	Topic	Year effective
TAS 1 (revised 2014)	Presentation of Financial Statements	2015
TAS 7 (revised 2014)	Statement of Cash Flows	2015
TAS 8 (revised 2014)	Accounting Policies, Changes in Accounting Estimates and Errors	2015
TAS 10 (revised 2014)	Events after the Reporting Period	2015
TAS 12 (revised 2014)	Income Taxes	2015
TAS 16 (revised 2014)	Property, Plant and Equipment	2015
TAS 17 (revised 2014)	Leases	2015
TAS 18 (revised 2014)	Revenue	2015
TAS 19 (revised 2014)	Employee Benefits	2015
TAS 21 (revised 2014)	The Effects of Changes in Foreign Exchange Rates	2015
TAS 23 (revised 2014)	Borrowing Costs	2015
TAS 24 (revised 2014)	Related Party Disclosures	2015
TAS 36 (revised 2014)	Impairment of Assets	2015
TAS 37 (revised 2014)	Provisions, Contingent Liabilities and Contingent Assets	2015
TAS 38 (revised 2014)	Intangible Assets	2015
TAS 40 (revised 2014)	Investment Property	2015
TFRS 2 (revised 2014)	Share-based Payment	2015
TFRS 5 (revised 2014)	Non-current Assets Held for Sale and Discontinued Operations	2015
TFRS 13	Fair Value Measurement	2015

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