

**THE HONGKONG AND SHANGHAI BANKING
CORPORATION LIMITED, BANGKOK BRANCH**

FINANCIAL STATEMENTS

31 DECEMBER 2015



AUDITOR'S REPORT

To the Shareholders and the Board of Directors of The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch.

I have audited the accompanying financial statements of The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch, which comprise the statements of financial position as at 31 December 2015, and the statements of comprehensive income, changes in head office and other branches of the same juristic person and cash flows for the year then ended, and a summary of significant accounting policies and other notes.

Management's Responsibility for the Financial Statements

Management 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 referred to above present fairly, in all material respects, the financial position of The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch as at 31 December 2015, and its results of operations and cash flows for the year then ended in accordance with Thai Financial Reporting Standards.

A handwritten signature in blue ink, appearing to be 'Unakorn Phruithithada', written in a cursive style.

Unakorn Phruithithada
Certified Public Accountant (Thailand) No. 3257
PricewaterhouseCoopers ABAS Ltd.

Bangkok
18 February 2016

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Statement of Financial Position
As at 31 December 2015

	Notes	2015 Thousand Baht	2014 Thousand Baht
Assets			
Cash		50,382	66,090
Interbank and money market items, net	6, 22	47,332,481	53,226,442
Claims on security		3,030,804	7,075,029
Derivative assets	7	47,541,103	38,642,719
Investments, net	8	89,339,225	73,965,520
Loans to customers and accrued interest receivables, net	9		
Loans to customers		71,729,308	58,166,927
Accrued interest receivables		168,940	125,433
Total loans to customers and accrued interest receivables		71,898,248	58,292,360
<u>Less</u> Deferred revenue		(9,225)	(9,257)
<u>Less</u> Allowance for doubtful accounts	9.4, 10	(1,089,788)	(1,049,719)
Total loans to customers and accrued interest receivables, net		70,799,235	57,233,384
Leasehold improvements and equipment, net		32,631	34,297
Intangible asset, net		415	1,037
Leasehold right for land and buildings, net	11	159,583	173,910
Deferred tax assets, net	12	20,178	139,305
Other assets, net	13	1,803,559	538,177
Total assets		260,109,596	231,095,910


Neeranuch Upaphattavanij
 Chief Financial Officer
 Thailand Branch


Tan Swee Bong Kelvin
 Chief Executive Officer
 Thailand Branch

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

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Statement of Financial Position (Cont'd)
As at 31 December 2015

	<u>Notes</u>	2015 Thousand Baht	2014 Thousand Baht
Liabilities and accounts with head office and other branches abroad of the same juristic person			
Liabilities			
Deposits	15	130,696,847	114,102,806
Interbank and money market items	16, 22	14,639,433	18,880,918
Liabilities payable on demand		2,190,895	3,177,831
Liabilities to deliver security		3,030,804	7,075,029
Derivative liabilities	7	47,041,198	39,284,689
Debt issued and borrowings	17	16,159,170	15,492,767
Employee benefit obligations	18	196,648	172,987
Provisions	19	173,148	192,565
Other liabilities	20	8,656,221	4,448,565
Total liabilities		<u>222,784,364</u>	<u>202,828,157</u>
Accounts with head office and other branches of the same juristic person			
Net funds brought in to maintain assets under the Act	5	20,100,000	18,750,000
Net balance of inter-office accounts with head office and other branches of the same juristic person	22	14,185,571	7,166,579
Other components of accounts with head office and other branches of the same juristic person		164,741	188,087
Retained earnings		<u>2,874,920</u>	<u>2,163,087</u>
Total accounts with head office and other branches of the same juristic person		<u>37,325,232</u>	<u>28,267,753</u>
Total liabilities and accounts with head office and other branches of the same juristic person		<u>260,109,596</u>	<u>231,095,910</u>

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

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Statement of Comprehensive Income
For the year ended 31 December 2015

	Notes	2015 Thousand Baht	2014 Thousand Baht
Interest income	22, 25	4,145,900	4,427,293
Interest expense	22, 26	1,767,323	1,984,707
Net interest income		2,378,577	2,442,586
Fees and service income		936,598	912,215
Fees and service expenses		189,065	171,240
Net fees and service income	22, 27	747,533	740,975
Net gain on trading and foreign exchange transactions	28	1,771,102	1,475,750
Net gain on investments	29	57,889	3,507
Other operating income	22	4,020	57,594
Total operating income		4,959,121	4,720,412
Other operating expenses			
Employee expenses	23, 31	1,220,957	1,136,861
Premises and equipment expenses		397,810	376,559
Taxes and duties		72,105	59,815
Other expenses	22, 32	527,255	518,637
Total other operating expenses		2,218,127	2,091,872
Bad debts, doubtful accounts expense and impairment loss	30	165,134	198,259
Operating profit before income tax expense		2,575,860	2,430,281
Income tax expense	33	514,027	502,119
Net profit		2,061,833	1,928,162
Other comprehensive income			
<i>Items that will be reclassified subsequently to profit or loss</i>			
Gains (losses) on remeasurement of available-for-sale investments		(26,520)	65,270
Other reserves		6,804	7,432
Income taxes relating to items that will be reclassified to profit or loss		5,304	(8,441)
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Actuarial losses	18	(11,167)	(31,777)
Income taxes on items that will not be reclassified to profit or loss	33	2,233	6,355
Other comprehensive income for the year, net of income tax		(23,346)	38,839
Total comprehensive income for the year		2,038,487	1,967,001

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

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Statement of Changes in Head Office and Other Branches of the Same Juristic Person
For the year ended 31 December 2015

	Net funds brought in to maintain assets under the Act Thousand Baht	Net balance of inter-office accounts with head office and other branches of the same juristic person Thousand Baht	Other components of accounts with head office and other branches of the same juristic person			Total Thousand Baht
			Gains (losses) on remeasurement of available-for-sale investments Thousand Baht	Other reserves Thousand Baht	Retained earnings Thousand Baht	
Balance at 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	-	-	-	(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	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
Balance at 1 January 2015	18,750,000	7,166,579	134,019	54,068	2,163,087	28,267,753
Comprehensive income for the year						
Net profit	-	-	-	-	2,061,833	2,061,833
Other comprehensive income						
Losses on remeasurement of available-for-sale investments, net of income tax	-	-	(21,216)	-	-	(21,216)
Actuarial losses, net of income tax	-	-	-	(8,934)	-	(8,934)
Others, net of income tax	-	-	-	6,804	-	6,804
Total other comprehensive income	-	-	(21,216)	(2,130)	-	(23,346)
Total comprehensive income for the year	-	-	(21,216)	(2,130)	2,061,833	2,038,487
Increase in fund	1,350,000	-	-	-	-	1,350,000
Movement in balance of inter-office accounts with head office and other branches of the same juristic person	-	7,018,992	-	-	-	7,018,992
Profit remittance to head office	-	-	-	-	(1,350,000)	(1,350,000)
Balance at 31 December 2015	20,100,000	14,185,571	112,803	51,938	2,874,920	37,325,232

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

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Statement of Cash Flows
For the year ended 31 December 2015

	2015	2014
	Thousand Baht	Thousand Baht
Cash flows from operating activities		
Operating profit before income tax expenses	2,575,860	2,430,281
Adjustments to reconcile profit from operations before income tax expense to cash received (paid) from operating activities		
Depreciation and amortisation	28,509	28,275
Bad debt, doubtful accounts expense and impairment loss	165,134	198,259
Unrealised gains on revaluation of trading investment	(376,185)	(247,509)
Gains on disposal of equipment	(184)	(233)
Unrealised losses (gains) on change in foreign exchange	1,128,305	(185,210)
Unrealised (gains) losses on derivative assets and liabilities	(1,141,875)	1,349,235
Provisions for contingent liabilities	118	-
Increase in other reserves	158	571
Net interest income	(2,378,577)	(2,442,586)
Proceeds from interest income	4,201,745	4,384,398
Interest paid	(1,781,406)	(2,004,201)
Income tax paid	(44,899)	(450,022)
Net profit from operations before change in operating assets and liabilities	2,376,703	3,061,258
Decrease (increase) in operating assets		
Interbank and money market items	5,831,395	5,310,375
Trading investment	(8,269,551)	5,648,956
Loans to customers	(13,115,907)	(15,198,541)
Properties foreclosed	-	63,110
Other assets	(1,298,091)	(92,811)
Increase (decrease) in operating liabilities		
Deposits	14,925,486	30,040,658
Interbank and money market items	(4,243,341)	5,877,088
Liabilities payable on demand	(986,935)	(641,924)
Debt issued and borrowings	666,404	942,745
Employee benefit obligations	12,493	1,256
Provisions	(19,534)	(23,597)
Other liabilities	3,852,377	(1,574,999)
Net cash (used in) provided by operating activities	(268,501)	33,413,574

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

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Statement of Cash Flows (Cont'd)
For the year ended 31 December 2015

	2015	2014
	<u>Thousand Baht</u>	<u>Thousand Baht</u>
Cash flows from investing activities		
Increase in available-for-sale investments	(6,754,489)	(22,725,788)
Purchases of equipment	(13,522)	(11,855)
Proceeds from sales of equipment	1,812	233
Net cash used in investing activities	<u>(6,766,199)</u>	<u>(22,737,410)</u>
Cash flows from financing activities		
Increase (decrease) in net balance of inter-office accounts with head office and other branches of the same juristic person	<u>7,018,992</u>	<u>(10,666,455)</u>
Net cash provided by (used in) financing activities	<u>7,018,992</u>	<u>(10,666,455)</u>
Net (decrease) increase in cash and cash equivalents	(15,708)	9,709
Cash and cash equivalents at the beginning of the year	<u>66,090</u>	<u>56,381</u>
Cash and cash equivalents at the end of the year	<u><u>50,382</u></u>	<u><u>66,090</u></u>
Non-cash transactions		
Funds brought in to maintain assets under the Act transferred from retained earnings which remitted profit to head office	1,350,000	2,750,000

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

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Notes to the Financial Statements
For the year ended 31 December 2015

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1 General information

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

The head office of the Branch is The Hongkong and Shanghai Banking Corporation Limited (“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.

The Branch financial statements have been approved for issue by the Branch’s management on 18 February 2016.

2 Significant accounting policies

The principal accounting policies applied in the preparation of the Branch financial statements are set out below:

2.1 Basis of preparation

The financial statements are prepared in accordance with Thai financial reporting standards (“TFRS”) under the Accounting Act B.E. 2543, being those Thai financial reporting standards issued under the Accounting Professions Act B.E. 2547. The primary financial statements are prepared in the full format as required by the Notification of the Bank of Thailand (“BoT”), no. Sor Nor Sor 21/2558 Re: The preparation and announcement of the Financial Statements of Commercial Bank and Holding Parent Company of Financial Group dated 4 December 2015.

The Branch’s financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with Thai generally accepted accounting principles requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Branch’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

An English version of the financial statements have been prepared from the statutory financial statements that are in the Thai language. In the event of a conflict or a difference in interpretation between the two languages, the Thai language statutory financial statements shall prevail.

2 Significant accounting policies (Cont'd)

2.2 New financial reporting standards and revised financial reporting standards and interpretations

2.2.1 New financial reporting standards and revised accounting standards, revised financial reporting standards are effective on 1 January 2015. These standards are relevant to the Branch.

a) Financial reporting standards, which have a significant impact to the Branch:

TAS 1 (revised 2014)	Presentation of Financial Statements
TAS 19 (revised 2014)	Employee Benefits
TFRS 13	Fair Value Measurement

TAS 1 (revised 2014), the main change is that a requirement for entities to group items presented in 'other comprehensive income' ("OCI") on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

TAS 19 (revised 2014), the key changes are (a) actuarial gains and losses are renamed 'remeasurements' and will be recognised immediately in 'other comprehensive income' (OCI). Actuarial gains and losses will no longer be deferred using the corridor approach or recognised in profit or loss; and (b) past-service costs will be recognised in the period of a plan amendment; unvested benefits will no longer be spread over a future-service period. This standard has no impact to the Branch because the Branch has recorded actuarial gain or losses in OCI.

TFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across TFRSs. This standard has no impact to the Branch's financial statements, except for disclosures. The Branch disclosed in note 4.

b) Financial reporting standards with no material impact to the Branch:

TFRS	Topic
TAS 7 (revised 2014)	Statement of Cash Flows
TAS 8 (revised 2014)	Accounting Policies, Changes in Accounting Estimates and Errors
TAS 10 (revised 2014)	Events after the Reporting Period
TAS 12 (revised 2014)	Income Taxes
TAS 16 (revised 2014)	Property, Plant and Equipment
TAS 17 (revised 2014)	Leases
TAS 18 (revised 2014)	Revenue
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TAS 23 (revised 2014)	Borrowing Costs
TAS 24 (revised 2014)	Related Party Disclosures
TAS 36 (revised 2014)	Impairment of Assets
TAS 37 (revised 2014)	Provisions, Contingent Liabilities and Contingent Assets
TAS 38 (revised 2014)	Intangible Assets
TAS 40 (revised 2014)	Investment Property
TFRS 2 (revised 2014)	Share-based Payment
TFRS 5 (revised 2014)	Non-current Assets Held for Sale and Discontinued Operations

2 Significant accounting policies (Cont'd)

2.2 New financial reporting standards and revised financial reporting standards and interpretations (Cont'd)

2.2.2 New financial reporting standards, revised accounting standards and revised financial reporting standards are effective on 1 January 2016. These standards are relevant to the Branch and are not early adopted.

TAS 16 (revised 2015), 'Property, plant and equipment' clarifies how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

TAS 19 (revised 2015), 'Employee benefits' is amended to apply to contributions from employees or third parties to defined benefit plans and to clarify the accounting treatment of such contributions. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period.

TAS 24 (revised 2015), 'Related party disclosures' includes as a related party an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (the 'management entity'). Disclosure of the amounts charged to the reporting entity is required.

TAS 36 (revised 2015), 'Impairment of assets' is amended to provide additional disclosure requirement when the recoverable amount of the assets is measured at fair value less costs of disposal. The disclosures include 1) the level of fair value hierarchy, 2) when fair value measurement categorised within level 2 and level 3, disclosures is required for valuation technique and key assumption.

TAS 38 (revised 2015), 'Intangible assets' is amended to clarify how the gross carrying amount and the accumulated amortisation are treated where an entity uses the revaluation model.

TFRS 2 (revised 2015), 'Share based payments' clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'.

TFRS 13 (revised 2015), 'Fair value measurement' is amended to clarify that the portfolio exception in TFRS 13 applies to all contracts (including non-financial contracts) within the scope of TAS 39 (when announced) or IFRS 9 (when announced).

Management evaluates that revised accounting standards, revised financial reporting standards, and related interpretations have no significant impact to the financial statements.

2 Significant accounting policies (Cont'd)

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Branch are measured using the currency of the primary economic environment in which the entity operates ('the functional currency') as Thai Baht.

(b) Transactions and balances

Transactions in foreign currencies are translated to the functional currency at the dates of the transactions or the date of remeasurement. Gains and losses on settlement of foreign currency or translation of monetary assets and liabilities are recognised in profit or loss

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit and loss, any exchange component of that gain or loss is recognised in profit and loss.

2.4 Cash

Cash consists of cash on hand and cash on collection.

2.5 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.

2 Significant accounting policies (Cont'd)

2.5 Investments (Cont'd)

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.

2.6 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.

2.7 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.

2 Significant accounting policies (Cont'd)

2.8 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.

2.9 Properties foreclosed

Properties foreclosed are stated at the lower of the net book value of the loan at the time of foreclosure and 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.

2.10 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.

2 Significant accounting policies (Cont'd)

2.11 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.

2.12 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.

2.13 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.

2 Significant accounting policies (Cont'd)

2.13 Impairment (Cont'd)

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 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.

2.14 Financial instruments

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.

2 Significant accounting policies (Cont'd)

2.14 Financial instruments (Cont'd)

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 qualified 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.

2.15 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.

2 Significant accounting policies (Cont'd)

2.15 Employee benefits (Cont'd)

Defined benefit plans

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

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

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.

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.

2.16 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.

2.17 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.

2 Significant accounting policies (Cont'd)

2.18 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.

2.19 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.

2 Significant accounting policies (Cont'd)

2.20 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.

3 Financial risk management

The Branch has following risks from financial instruments:

- Credit risk
- Market risk
- Liquidity risk

3.1 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 2015 and 2014 were as follows:

	2015	2014
	Million Baht	Million Baht
Forward exchange contracts	20,652	17,655
Forward interest rate contracts	22,476	23,635
Equity option	155	224
Total	43,283	41,514

3 Financial risk management (Cont'd)

3.2 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.

At 31 December 2015, significant financial assets and liabilities classified by type of interest rate were as follows:

	2015			Total Million Baht
	Floating interest rate Million Baht	Fixed interest rate Million Baht	Non interest bearing Million Baht	
Financial assets				
Cash	-	-	50	50
Interbank and money market items, net	500	43,576	3,256	47,332
Investments, net	2,712	43,733	42,894	89,339
Loans to customers ⁽¹⁾	41,650	29,863	207	71,720
Other assets	1,398	-	406	1,804
Total financial assets	46,260	117,172	46,813	210,245
Financial liabilities				
Deposits	101,836	18,879	9,982	130,697
Interbank and money market items	4,162	6,849	3,628	14,639
Liabilities payable on demand	-	-	2,191	2,191
Debt issued and borrowings	16,061	98	-	16,159
Other liabilities	7,126	-	1,530	8,656
Total financial liabilities	129,185	25,826	17,331	172,342
Effect of derivatives held for risk management	(29,632)	29,632	366,703	366,703
Avals to bill and guarantee on loan	-	-	643	643
Letters of credit	-	-	749	749
Other contingencies	-	-	131,373	131,373

⁽¹⁾ Loans to customers net of deferred revenue

3 Financial risk management (Cont'd)

3.2 Market risk (Cont'd)

At 31 December 2014, significant financial assets and liabilities classified by type of interest rate were as follows:

	2014			Total Million Baht
	Floating interest rate Million Baht	Fixed interest rate Million Baht	Non interest bearing Million Baht	
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
Other assets	82	-	456	538
Total financial assets	38,273	113,463	34,218	185,954
Financial liabilities				
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
Other liabilities	2,810	-	1,639	4,449
Total financial liabilities	105,552	31,967	18,585	156,104
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

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3 Financial risk management (Cont'd)

3.2 Market risk (Cont'd)

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 2015 were as follows:

	2015					Total Million Baht	Average interest rate (% per annum)
	Less than 3 months Million Baht	3 months to 1 year Million Baht	1 to 5 years Million Baht	Over 5 years Million Baht	Non- interest bearing Million Baht		
Financial assets							
Cash	-	-	-	-	50	50	-
Interbank and money market items, net	43,842	234	-	-	3,256	47,332	1.80
Investments, net	24,354	35,139	16,086	13,760	-	89,339	2.14
Loans to customers and accrued interest receivable, net	58,685	7,978	3,648	319	169	70,799	2.45
Other assets	1,398	-	-	-	406	1,804	0.37
Total financial assets	128,279	43,351	19,734	14,079	3,881	209,324	
Financial liabilities							
Deposits	118,143	2,572	-	-	9,982	130,697	0.85
Interbank and money market items	11,011	-	-	-	3,628	14,639	1.23
Liabilities payable on demand	-	-	-	-	2,191	2,191	-
Debt issued and borrowings	13,716	2,345	98	-	-	16,159	3.19
Other liabilities	7,126	-	-	-	1,530	8,656	0.39
Total financial liabilities	149,996	4,917	98	-	17,331	172,342	
Effect of derivatives held for risk management	14,624	(18,065)	(5,441)	8,882	366,703	366,703	
Avals to bill and guarantee on loan	-	-	-	-	643	643	
Letters of credit	-	-	-	-	749	749	
Other contingencies	-	-	-	-	131,373	131,373	

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3 Financial risk management (Cont'd)

3.2 Market risk (Cont'd)

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 were as follows:

	2014						Average interest rate (% per annum)
	Less than 3 months Million Baht	3 months to 1 year Million Baht	1 to 5 years Million Baht	Over 5 years Million Baht	Non-interest bearing Million Baht	Total Million Baht	
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	

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.

3 Financial risk management (Cont'd)

3.2 Market risk (Cont'd)

(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 2015 and 2014, the Branch has net open position assets (liabilities) denominated in the various currencies as follows;

	2015	2014
	Million Baht	Million Baht
Net foreign currency exposure*		
US Dollar	(14,439)	3,094
Euro	536	(1,458)
Yen	(35)	(66)
Pound	(36)	(28)
Others	(3)	478

* No non-performing loans amounting in foreign currency exposure at 31 December 2015 and 2014.

(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.

3.3 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 guideline on Liquidity Coverage Ratio 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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3 Financial risk management (Cont'd)

3.3 Liquidity risk (Cont'd)

A maturity analysis of financial assets and liabilities as at 31 December 2015 and 2014 was as follows:

	2015						Total Million Baht
	At call Million Baht	Less than 3 months Million Baht	3 months to 1 year Million Baht	1 to 5 years Million Baht	Over 5 years Million Baht	No maturity Million Baht	
Financial assets							
Cash	-	-	-	-	-	50	50
Interbank and money market items, net	3,544	43,554	234	-	-	-	47,332
Derivative assets	130	4,009	7,393	24,028	11,981	-	47,541
Investments, net	-	24,354	35,139	16,086	13,760	-	89,339
Loans to customers and accrued interest receivable, net	-	38,194	3,442	25,079	4,084	-	70,799
Other assets	-	1,398	-	-	-	406	1,804
Total financial assets	3,674	111,509	46,208	65,193	29,825	456	256,865
Financial liabilities							
Deposits	111,818	16,307	2,572	-	-	-	130,697
Interbank and money market items	7,789	6,850	-	-	-	-	14,639
Liabilities payable on demand	2,191	-	-	-	-	-	2,191
Derivative liabilities	243	3,838	7,156	25,092	10,712	-	47,041
Debt issued and borrowings	-	-	6,560	4,831	4,768	-	16,159
Other liabilities	-	7,126	-	-	-	1,530	8,656
Total financial liabilities	122,041	34,121	16,288	29,923	15,480	1,530	219,383
Liquidity gap, net	(118,367)	77,388	29,920	35,270	14,345	(1,074)	37,482
	2014						
	At call Million Baht	Less than 3 months Million Baht	3 months to 1 year Million Baht	1 to 5 years Million Baht	Over 5 years Million Baht	No maturity Million Baht	Total Million Baht
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

4 Fair value of financial instruments

Fair values hierarchy

Fair values of financial assets and liabilities are determined according to the following hierarchy:

- Level 1 - valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that the Branch can access at the measurement date.
- Level 2 - valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 - valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk-taker. For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, the Branch will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

For fair values determined using valuation models, the control framework may include, as applicable, development or validation by independent support functions of (i) the logic within valuation models; (ii) the inputs to those models; (iii) any adjustments required outside the valuation models; and (iv) where possible, model outputs. Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

4.1 Fair values of financial instruments carried at fair value

The following table presents the Branch's financial assets and liabilities carried at fair value by fair value hierarchy at 31 December 2015.

	Level 1 Million Baht	Level 2 Million Baht	Level 3 Million Baht	Total Million Baht
Financial assets				
Financial assets at fair value through profit or loss				
Trading investments	13,217	10,271	-	23,488
Claims on security	-	3,031	-	3,031
Derivative	5,347	42,177	17	47,541
Available-for-sale financial assets				
Debt securities	9,079	56,772	-	65,851
Total financial assets	27,643	112,251	17	139,911
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Debt issued and borrowings	-	15,541	618	16,159
Liabilities to deliver security	-	3,031	-	3,031
Derivative	6,296	40,745	-	47,041
Total financial liabilities	6,296	59,317	618	66,231

There were no transfers between Level 1 and Level 2 during the year.

4 Fair value of financial instruments (Cont'd)

4.1 Fair values of financial instruments carried at fair value (Cont'd)

Fair value valuation of financial instruments carried at fair value

Financial investments

The fair values of financial investments are stated according to the Branch's accounting policies mentioned in note 2.

Derivatives

OTC (i.e. non-exchange traded) derivatives are valued using valuation models. Valuation models calculate the present value of expected future cash flows, based upon 'no-arbitrage' principles. For many vanilla derivative products, such as interest rate swaps and European options, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some differences in market practice. Inputs to valuation models are determined from observable market data wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices via model calibration procedures or estimated from historical data or other sources. Examples of inputs that may be unobservable include volatility surfaces, in whole or in part, for less commonly traded option products, and correlations between market factors such as foreign exchange rates, interest rates and equity prices.

Derivative products valued using valuation techniques with significant unobservable inputs included certain types of correlation products, such as foreign exchange basket options, equity basket options, foreign exchange interest rate hybrid transactions and long-dated option transactions. Examples of the latter are equity options, interest rate and foreign exchange options.

Structured notes

The fair value of structured notes valued using a valuation technique with significant unobservable inputs is derived from the fair value of the underlying debt security, and the fair value of the embedded derivative is determined as described in the above paragraph on derivatives.

Level 3 structured notes principally comprise equity-linked notes which are issued by the Branch and provide the counterparty with a return that is linked to the performance of certain equity securities, and other portfolios. The notes are classified as Level 3 due to the unobservability of parameters such as long-dated equity volatilities and correlations between equity prices, between equity prices and interest rates and between interest rates and foreign exchange rates.

4 Fair value of financial instruments (Cont'd)

4.1 Fair values of financial instruments carried at fair value (Cont'd)

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

The following table presents the movement between opening and closing balance of Level 3 financial instruments, measured at fair value using a valuation technique with significant unobservable inputs for the year ended 31 December 2015.

	Derivatives assets Million Baht	Debt issued and borrowings Million Baht
At 1 January 2015	162	617
Gains and losses recognised in profit or loss	42	11
Settlements	-	(10)
Transfers out	(187)	-
At 31 December 2015	<u>17</u>	<u>618</u>
Unrealised gains or losses for the period included in profit or loss for assets/ liabilities held at 31 December 2015	17	1

Transfers out of Level 3 derivative assets principally certain model inputs become observable.

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

The following table shows the sensitivity of Level 3 fair values to reasonably possible alternative assumptions:

	Reflected in profit or loss	
	Favorable change Million Baht	Unfavorable change Million Baht
Other derivative	<u>1</u>	<u>(1)</u>
At 31 December 2015	<u>1</u>	<u>(1)</u>

Favourable and unfavourable changes are determined on the basis of sensitivity analysis. The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95% confidence interval. Methodologies take account of the nature of the valuation technique employed, as well as the availability and reliability of observable proxy and historical data. When the available data is not amenable to statistical analysis, the quantification of uncertainty is judgemental, but remains guided by the 95% confidence interval.

When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or the most unfavourable change from varying the assumptions individually.

4 Fair value of financial instruments (Cont'd)

4.1 Fair values of financial instruments carried at fair value (Cont'd)

Key unobservable inputs to Level 3 financial instruments

The table below lists key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs as at 31 December 2015. The core range of inputs is the estimated range within which 90% of the inputs fall. A further description of the categories of key unobservable inputs is given below.

Quantitative information about significant unobservable inputs in Level 3 valuations

	Fair value		Valuation technique	Key unobservable inputs	Full range of inputs		Core range of inputs	
	Assets	Liabilities			Lower	Higher	Lower	Higher
	Million Baht	Million Baht						
Other derivative								
Interest rate derivative	17	-	Model - Discounted cash flow	IR basis	2.8%	3.0%	2.8%	3.0%
FX option	-	-	Model - Option model	FX volatility	7.6%	12.2%	8.1%	12.2%
Structure notes								
Equity link notes	-	275	Model - Option model	Equity volatility	23.4%	23.4%	23.4%	23.4%
	-	343	Model - Option model	Equity correlation	89.4%	99.1%	89.4%	99.1%
At 31 December 2015	17	618						

4 Fair value of financial instruments (Cont'd)

4.1 Fair values of financial instruments carried at fair value (Cont'd)

Volatility

Volatility is a measure of the anticipated future variability of a market price. Volatility tends to increase in stressed market conditions, and decrease in calmer market conditions. Volatility is an important input in the pricing of options. In general, the higher the volatility, the more expensive the option will be. This reflects both the higher probability of an increased return from the option and the potentially higher costs that the Branch may incur in hedging the risks associated with the option. If option prices become more expensive, this will increase the value of the Branch's long option positions (i.e. the positions in which the Branch has purchased options), while the Branch's short option positions (i.e. the positions in which the Branch has sold options) will suffer losses.

Volatility varies by underlying reference market price, and by strike and maturity of the option. Volatility also varies over time. As a result, it is difficult to make general statements regarding volatility levels. For example, while it is generally the case that foreign exchange volatilities are lower than equity volatilities, there may be examples in particular currency pairs or for particular equities where this is not the case.

Certain volatilities, typically those of a longer-dated nature, are unobservable. The unobservable volatility is then estimated from observable data. For example, longer-dated volatilities may be extrapolated from shorter-dated volatilities. The range of unobservable volatilities quoted in the above table reflects the wide variation in volatility inputs by reference market price. For example, foreign exchange volatilities for a pegged currency may be very low, whereas for non-managed currencies the foreign exchange volatility may be higher. As a further example, volatilities for deep-in-the-money or deep-out-of-the-money equity options may be significantly higher than at-the-money options. The core range is significantly narrower than the full range because these examples with extreme volatilities occur relatively rarely within the Branch portfolio.

Correlation

Correlation is a measure of the inter-relationship between two market prices and is expressed as a number between minus one and plus one. A positive correlation implies that the two market prices tend to move in the same direction, with a correlation of one implying that they always move in the same direction. A negative correlation implies that the two market prices tend to move in opposite directions, with a correlation of minus one implying that the two market prices always move in opposite directions. Correlation is used to value more complex instruments where the payout is dependent upon more than one market price. For example, an equity basket option has a payout that is dependent upon the performance of a basket of single stocks, and the correlation between the price movements of those stocks will be an input to the valuation. This is referred to as equity-equity correlation. There is a wide range of instruments for which correlation is an input, and consequently a wide range of both same-asset correlations (e.g. equity-equity correlation) and cross-asset correlations (e.g. foreign exchange rate-interest rate correlation) used. In general, the range of same-asset correlations will be narrower than the range of cross-asset correlations.

Correlation may be unobservable. Unobservable correlations may be estimated based upon a range of evidence, including consensus pricing services, the Branch trade prices, proxy correlations and examination of historical price relationships.

The range of unobservable correlations quoted in the table reflects the wide variation in correlation inputs by market price pair. For any single unobservable correlation, the uncertainty in the correlation determination is likely to be less than the range quoted above.

4 Fair value of financial instruments (Cont'd)

4.2 Fair values of financial instruments not carried at fair value

The following table presents the Branch's financial assets and liabilities not carried at fair value by fair value hierarchy at 31 December 2015

	Level 1	Level 2	Level 3	Total
	Million Baht	Million Baht	Million Baht	Million Baht
Financial assets				
Cash	50	-	-	50
Interbank and money market items	-	47,342	-	47,342
Loans to customers and accrued interest receivables	-	-	71,644	71,644
Total financial assets	50	47,342	71,644	119,036
Financial liabilities				
Deposit	-	130,697	-	130,697
Interbank and money market items	-	14,639	-	14,639
Total financial liabilities	-	145,336	-	145,336

Fair value valuation of financial instruments not carried at fair value

Other financial instruments not carried at fair value are typically short-term in nature and reprice to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value. This includes cash and balances at central banks, interbank and money market items (assets and liabilities), all of which are measured at amortised cost.

Loans and advances to customers

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

Floating rate loans to customers that reprice frequently and have no significant change in credit risk, fair value approximates its carrying value at the reporting date. The fair value of fixed rate loans to customers that reprice within one year of the reporting date approximates the carrying value at the reporting date. The fair value of other fixed interest loans to customers is estimated using discounted cash flow analysis and using interest rates currently being offered for loans to customers with similar credit quality.

Deposit

Fair value of deposit repayable on demand and its carrying amount of deposit repricing within one year are approximated by their carrying value at the reporting date. The fair value of other fixed interest deposits is estimated using discounted cash flows, applying current rates being offered for deposits of similar remaining maturity.

5 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 2015 and 2014, can be summarised as follows:

	2015	2014
	Million Baht	Million Baht
Assets maintained under Section 32	21,268	20,940
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	20,100	18,750
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	14,470	7,317
Total	34,570	26,067
Regulatory Capital (in million Baht)	20,100	18,749
Regulatory Capital after deducting capital add-on from Single Lending Limit (in million Baht)	19,271	17,783
Capital Adequacy Ratio (%)	17.41	19.06
Capital Adequacy Ratio after deducting capital add-on from Single Lending Limit (%)	16.69	18.08

As at 31 December 2015 and 2014, 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 2015 and 2014, 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 2015 and 2014 within 4 months after the year end date as indicated in the notification through the Branch’s website www.hsbc.co.th.

In 2015, the Bank of Thailand approved the increase in capital of the Branch amounting from Baht 18,750 million to Baht 20,100 million being effective on 2 June 2015. The Branch transferred the amount from retained earnings with the approval from head office.

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.

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6 Interbank and money market items, net (assets)

	2015			2014		
	At call Million Baht	Term Million Baht	Total Million Baht	At call Million Baht	Term Million Baht	Total Million Baht
<i>Domestic</i>						
The Bank of Thailand and Financial Institutions						
Development Fund	3,124	6,298	9,422	701	4,986	5,687
Commercial banks	135	37,328	37,463	163	46,944	47,107
Other financial institutions	200	-	200	200	-	200
<u>Add</u> Accrued interest receivable	-	20	20	-	80	80
<u>Less</u> Deferred revenue	-	(3)	(3)	-	(2)	(2)
Allowance for doubtful accounts	(2)	(8)	(10)	(2)	(5)	(7)
Total domestic	3,457	43,635	47,092	1,062	52,003	53,065
<i>Foreign</i>						
US Dollar	46	153	199	-	109	109
Euro	-	-	-	19	-	19
Other currencies	41	-	41	33	-	33
Total foreign	87	153	240	52	109	161
Total domestic and foreign	3,544	43,788	47,332	1,114	52,112	53,226

7 Derivatives

Derivatives held for trading

As at 31 December 2015 and 2014, fair value and notional amount of derivatives classified by type of risks are as follows:

Type of risk	2015				
	Fair value		Notional amount		
	Assets Million Baht	Liabilities Million Baht	Up to 1 year Million Baht	Over 1 year Million Baht	Total Million Baht
Exchange rate	24,510	25,017	432,994	318,320	751,314
Interest rate	22,971	21,502	541,968	1,419,221	1,961,189
Others					
- Equities	54	50	1,272	302	1,574
- Bond	6	472	5,610	3,650	9,260
Total	47,541	47,041	981,844	1,741,493	2,723,337

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7 Derivatives (Cont'd)

Type of risk	2014				
	Fair value		Notional amount		
	Assets Million Baht	Liabilities Million Baht	Up to 1 year Million Baht	Over 1 year Million Baht	Total Million Baht
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

As at 31 December 2015 and 2014, proportions of the notional amount of derivative transactions, classified by counterparties, consisted of:

	2015 %	2014 %
Counterparty		
Financial institutions	48	49
Related parties	45	44
Third parties	7	7
Total	100	100

8 Investments, net

8.1 Classification of investment in securities

As at 31 December 2015 and 2014, the Branch classified investment types, as follows:

	2015 Fair value Million Baht	2014 Fair value Million Baht
Trading investments		
Government and state enterprise securities	22,864	13,005
Private debt instruments	624	1,838
Total	23,488	14,843
Available-for-sale investments		
Government and state enterprise securities	65,851	56,801
Private debt instruments	-	2,090
Marketable equity shares - domestic	-	232
Total	65,851	59,123
Total investments, net	89,339	73,966

As at 31 December 2015, investments classified as available-for-sale with market values of Baht 21,268 million and Baht 19,826 million (2014: Baht 21,173 million and Baht 12,807 million) were maintained as capital fund under the Bank of Thailand's regulation and pledged with the Bank of Thailand for intraday liquidity facilities and securities requirement for settlement, respectively.

8 Investments, net (Cont'd)

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

	2015	2014
	Fair value Million Baht	Fair value Million Baht
Gain on investments		
Debt securities	144	136
Equity securities	-	32
Loss on investments		
Debt securities	(3)	(1)
Total	141	167
<u>Less</u> Deferred tax	(28)	(33)
Net	<u>113</u>	<u>134</u>

9 Loans to customers and accrued interest receivables, net

9.1 Classified by type of loans

	2015	2014
	Million Baht	Million Baht
Overdrafts	1,437	3,246
Loans	61,932	45,476
Bills	8,360	9,445
<u>Less</u> Deferred revenue	(9)	(9)
Total loans to customers net from deferred revenue	71,720	58,158
<u>Add</u> Accrued interest receivables	169	125
Total loans to customers net from deferred revenue add accrued interest receivables	71,889	58,283
<u>Less</u> Allowance for doubtful accounts		
- BoT's minimum requirement		
- individual approach	(857)	(901)
- Allowance in excess	(233)	(149)
Total loans to customers and accrued interest receivables, net	<u>70,799</u>	<u>57,233</u>

9.2 Classified by currency and residency of debtors

	2015			2014		
	Domestic Million Baht	Foreign Million Baht	Total Million Baht	Domestic Million Baht	Foreign Million Baht	Total Million Baht
Baht	45,060	-	45,060	39,019	-	39,019
US Dollar	21,170	4,020	25,190	15,019	3,769	18,788
Other currencies	1,205	265	1,470	351	-	351
Total*	<u>67,435</u>	<u>4,285</u>	<u>71,720</u>	<u>54,389</u>	<u>3,769</u>	<u>58,158</u>

* Loans to customers net of deferred revenue

9 Loans to customers and accrued interest receivables, net (Cont'd)

9.3 Classified by type of business and loan classification

	2015				Total Million Baht
	Pass Million Baht	Special mention Million Baht	Substandard Million Baht	Doubtful of loss Million Baht	
Agriculture and mining	2,485	355	-	-	2,840
Industrial and commercial	46,713	12	-	228	46,953
Property and construction	2,901	-	15	-	2,916
Infrastructure and service	18,527	23	-	-	18,550
Home mortgages	295	-	-	-	295
Others	166	-	-	-	166
Total*	71,087	390	15	228	71,720

* Loans to customers net of deferred revenue

	2014			
	Pass Million Baht	Special mention Million Baht	Doubtful of loss Million Baht	Total Million Baht
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*	57,788	5	365	58,158

* Loans to customers net of deferred revenue

9.4 Loans classified by grade

	2015			
	Loans to customers and accrued interest receivables Million Baht	Net amount to set up allowance for doubtful accounts Million Baht	Rate used to set up allowance for doubtful accounts (%)	Allowance for doubtful accounts Million Baht
Allowance as per BoT's minimum requirement				
- Pass	71,256	64,330	1	651
- Special mention	390	-	2	-
- Substandard	15	-	100	-
- Doubtful of loss	228	206	100	206
Total	71,889	64,536		857
Allowance in excess				233
Total *				1,090

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

9 Loans to customers and accrued interest receivables, net (Cont'd)

9.4 Loans classified by grade (Cont'd)

	2014			
	Loans to customers and accrued interest receivables Million Baht	Net amount to set up allowance for doubtful accounts Million Baht	Rate used to set up allowance for doubtful accounts (%)	Allowance for doubtful accounts Million Baht
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	58,283	55,827		901
Allowance in excess				149
Total *				1,050

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

9.5 Non-performing loans

As at 31 December 2015 and 2014 the Branch had non-performing loans gross ("NPLs Gross") (including financial institutions) based on the BoT notification as follows:

	2015	2014
NPLs, gross (<i>in million Baht</i>)	243	365
Loans used for NPLs ratio calculation ⁽¹⁾ (<i>in million Baht</i>)	115,796	110,395
Percentage of total loans ⁽²⁾	0.21	0.33

(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 2015 and 2014 the Branch had non-performing loans net ("NPLs Net") (including financial institutions) based on the BoT notification as follows:

	2015	2014
NPLs, net (<i>in million Baht</i>)	36	15
Loans used for NPLs ratio calculation ⁽¹⁾ (<i>in million Baht</i>)	115,589	110,045
Percentage of total loans ⁽²⁾	0.03	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 2015, Allowance for doubtful account of Baht 207 million (2014: Baht 350 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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10 Allowance for doubtful accounts

Movements in the allowance for doubtful accounts for loans to customers during the years ended 31 December 2015 and 2014 consisted of:

	2015					Total Million Baht
	Pass Million Baht	Special mention Million Baht	Substandard Million Baht	Doubtful Million Baht	Doubtful of loss Million Baht	
Beginning balance	700	-	-	-	350	1,050
Doubtful accounts charge	175	8	-	-	(22)	161
Bad debts written off	-	-	-	-	(120)	(120)
Movement in exchange rate	-	-	-	-	(1)	(1)
Ending balance	875	8	-	-	207	1,090

	2014					Total Million Baht
	Pass Million Baht	Special mention Million Baht	Substandard Million Baht	Doubtful Million Baht	Doubtful of loss Million Baht	
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

11 Leasehold right for land and buildings, net

	2015 Million Baht	2014 Million Baht
Cost	909	909
<u>Less</u> Accumulated amortisation	(480)	(466)
<u>Less</u> Loss on impairment	(269)	(269)
Net	160	174

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12 Deferred tax assets, net

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

	2015	2014
	Million Baht	Million Baht
Deferred tax asset to be recovered within 12 months	11	72
Deferred tax asset to be recovered after more than 12 months	166	155
Deferred tax liability to be settled within 12 months	(157)	(88)
Deferred tax asset (net)	20	139

Movements in deferred tax assets and liabilities during the year ended 31 December 2015 were as follows:

	(Charged)/ credited to			
	At		Other	At
	1 January	Profit or loss	comprehensive	31 December
	2015	(note 33)	income	2015
	Million	Million	Million	Million
	Baht	Baht	Baht	Baht
Deferred tax assets				
Allowance for doubtful accounts and provision for contingent liabilities	72	(61)	-	11
Provision for impairment	43	(4)	-	39
Others	112	13	2	127
Total	227	(52)	2	177
Deferred tax liabilities				
Investments	87	75	(5)	157
Borrowings and financial instruments	1	(1)	-	-
Total	88	74	(5)	157
Net	139	(126)	7	20

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

	(Charged)/ credited to			
	At		Other	At
	1 January	Profit or loss	comprehensive	31 December
	2014	(note 33)	income	2014
	Million	Million	Million	Million
	Baht	Baht	Baht	Baht
Deferred tax assets				
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
Deferred tax liabilities				
Investments	29	50	8	87
Borrowings and financial instruments	5	(4)	-	1
Total	34	46	8	88
Net	182	(41)	(2)	139

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13 Other assets, net

	2015	2014
	<u>Million Baht</u>	<u>Million Baht</u>
Accrued income receivable	318	369
Margins	1,428	110
Others	58	59
Total	<u>1,804</u>	<u>538</u>

14 Classified assets

As at 31 December 2015 and 2014, 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:

	2015			
	Investments	Interbank and money market	Loans to customers and accrued interest receivables	Total
	Million Baht	Million Baht	Million Baht	Million Baht
Pass	89,339	44,096	71,256	204,691
Special mention	-	-	390	390
Substandard	-	-	15	15
Doubtful of loss	-	-	228	228
Total	<u>89,339</u>	<u>44,096</u>	<u>71,889</u>	<u>205,324</u>

	2014			
	Investments	Interbank and money market	Loans to customers and accrued interest receivables	Total
	Million Baht	Million Baht	Million Baht	Million Baht
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>

Investments are stated at fair value. As at 31 December 2015, investments classified as doubtful of loss according to the BoT's definition represented unrealised loss on revaluation of Baht 5 million (2014: Baht 7 million).

15 Deposits

15.1 Classified by type of deposits:

	2015 Million Baht	2014 Million Baht
Current	32,258	22,338
Saving	79,560	71,018
Term		
- Less than 6 months	18,772	20,556
- More than 6 months but less than 1 year	107	191
Total	130,697	114,103

15.2 Classified by currency and residency of depositors:

	2015			2014		
	Domestic Million Baht	Foreign Million Baht	Total Million Baht	Domestic Million Baht	Foreign Million Baht	Total Million Baht
Baht	93,211	1,070	94,281	78,773	1,123	79,896
US Dollar	34,905	1,023	35,928	31,826	676	32,502
Other currencies	482	6	488	1,693	12	1,705
Total	128,598	2,099	130,697	112,292	1,811	114,103

16 Interbank and money market items (liabilities)

	2015			2014		
	At call Million Baht	Term Million Baht	Total Million Baht	At call Million Baht	Term Million Baht	Total Million Baht
<i>Domestic</i>						
Commercial banks	3	2,000	2,003	4	1,800	1,804
Specialised financial institutions	-	1,000	1,000	-	6,000	6,000
Finance, securities and credit foncier companies	1,539	3,200	4,739	1,408	3,200	4,608
Other financial institutions*	1,569	650	2,219	514	125	639
Total domestic	3,111	6,850	9,961	1,926	11,125	13,051
<i>Foreign</i>						
US Dollar	-	-	-	1,115	-	1,115
Other currencies	4,678	-	4,678	4,715	-	4,715
Total foreign	4,678	-	4,678	5,830	-	5,830
Total domestic and foreign	7,789	6,850	14,639	7,756	11,125	18,881

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17 Debt issued and borrowings

	2015	2014
	<u>Million Baht</u>	<u>Million Baht</u>
Bills of exchange	98	95
Floating rate notes	16,061	15,398
Total	<u>16,159</u>	<u>15,493</u>

At 31 December 2015, all borrowings were in Thai Baht with interest rates between 1.44% - 2.05% per annum (2014: 1.89% - 2.25% per annum).

18 Employee benefit obligations

Statements of financial position obligations for

	2015	2014
	<u>Million Baht</u>	<u>Million Baht</u>
Post employment benefits		
- Legal severance payment plan and gratuity plan	197	173

	2015	2014
	<u>Million Baht</u>	<u>Million Baht</u>
<i>Year ended 31 December</i>		
Statement of comprehensive income:		
<i>Recognised in profit or loss</i>		
Post employment benefits		
- Legal severance payment plan and gratuity plan	23	20
<i>Recognised in other comprehensive income</i>		
Actuarial losses recognised during the year	11	32
Total	<u>34</u>	<u>52</u>

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

Legal severance payment plan

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

Gratuity plan

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

18 Employee benefit obligations (Cont'd)

The statement of financial position obligation was determined as follows:

	2015	2014
	Million Baht	Million Baht
Present value of unfunded obligations	197	173
Statement of financial position obligation	197	173

Movement in the present value of the defined benefit obligations:

	2015	2014
	Million Baht	Million Baht
At 1 January	173	140
Expense recognised in profit or loss		
Current service costs	17	14
Interest cost on obligation	6	6
Benefits paid during the year	(10)	(19)
Actuarial losses in other comprehensive income	11	32
At 31 December	197	173

The expense is recognised in profit or loss:

	2015	2014
	Million Baht	Million Baht
Other operating expenses		
- Employee expenses	23	20
Total	23	20

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

	2015	2014
	Million Baht	Million Baht
At 1 January	38	12
Recognised during the year	9	26
At 31 December	47	38

Principal actuarial assumptions at the reporting date:

	2015	2014
	(%)	(%)
Discount rate	2.9	3.6
Future average salary increases	3 - 12	3 - 12
Price inflation	3.0	3.0
Retirement mortality rate retirement	Thai Mortality Ordinary Table 2008	Thai Mortality Ordinary Table 2008

18 Employee benefit obligations (Cont'd)

At 31 December 2015, impact on Defined Benefit Obligation of key assumption changes are summarised as follows;

	<u>2015</u> <u>Million Baht</u>
Discount rate	
- 1.0% decrease	18
- 1.0% increase	(16)
Expected rate of salary increase	
- 1.0% decrease	(16)
- 1.0% increase	18
Turnover rate	
- 10% decrease in likelihood of turnover	8
- 10% increase in likelihood of turnover	(7)

Maturity analysis of benefits expected to be paid

	<u>2015</u> <u>Million Baht</u>
Benefits expected to be paid within 12 months	1
Benefits expected to be paid between 1 and 2 years	9
Benefits expected to be paid between 2 and 5 years	57
Benefits expected to be paid in more than 5 years	160

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method as when calculating the pension liability recognised within the statement of financial position.

19 Provisions

	<u>2015</u> <u>Million Baht</u>	<u>2014</u> <u>Million Baht</u>
At 1 January	193	218
Provision made (used)	(20)	(25)
At 31 December	<u>173</u>	<u>193</u>

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

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20 Other liabilities

	2015	2014
	Million Baht	Million Baht
Accrued interest expense	67	81
Accrued expenses	553	517
Income tax payable	10	221
Marginal deposit	7,133	2,810
Others	893	820
Total	8,656	4,449

21 Commitments and contingent liabilities

	2015			2014		
	Baht	Foreign	Total	Baht	Foreign	Total
	Million	currency	Million	Million	currency	Million
	Baht	Million	Baht	Baht	Million	Baht
Guarantees of loans	1	642	643	1	617	618
Other guarantees	19,667	12,886	32,553	17,767	11,947	29,714
Liabilities under unmaturing import bills	24	1,641	1,665	56	1,748	1,804
Letters of credit	47	702	749	14	1,248	1,262
Unused credit lines of overdrafts and credit facilities	71,176	25,979	97,155	60,504	20,628	81,132
Total	90,915	41,850	132,765	78,342	36,188	114,530

As at 31 December 2015, 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 (2014: 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	2015
		Million Baht
Building and service lease agreements	1 January 2016 - 30 June 2016	3
Vehicle lease agreements	1 January 2016 - 15 November 2018	10
Equipment lease agreement	1 February 2016 - 31 January 2020	14
		27
Type of lease agreement	Remaining period	2014
		Million Baht
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

22 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:

<u>Name of entities/Personnel</u>	<u>Country of incorporation</u>	<u>Nature of relationships</u>
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: - 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
Other HSBC Group entities		
HSBC Bank Plc.	England	HSBC Holdings Plc's subsidiary
HSBC Bank USA, N.A.	United States	HSBC Holdings Plc's subsidiary
HSBC Private Banking Holdings (Suisse) S.A.	Switzerland	HSBC Holdings Plc's subsidiary
HSBC Trinkaus & Burkhardt AG	Germany	HSBC Holdings Plc's subsidiary
HSBC Bank 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
HSBC Bank Vietnam Limited	Vietnam	HBAP's subsidiary

22 Related parties (Cont'd)

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

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

Significant transactions for the years ended 31 December 2015 and 2014 with the related parties were as follows:

	2015	2014
	Million Baht	Million Baht
HBAP		
Interest income on inter-office lending	1	-
Fee and commission income	92	85
Interest expense on inter-office borrowing	18	12
Fee and commission expense	46	40
Head office expenses	533	501
Other expenses	25	49
Other HSBC Group entities		
Fee and commission income	84	73
Fee and commission expense	33	29
Other income	2	3
Other expenses	27	19

Significant balances with related parties as at 31 December 2015 and 2014 consisted of:

	2015	2014
	Million Baht	Million Baht
Interbank and money market items (assets)		
HSBC Group entities		
HSBC Bank USA, N.A.	45	-
HSBC Bank Plc.	11	35
HSBC Bank Australia Limited	11	8
HSBC Bank Canada	1	1
HSBC Bank Malaysia Berhad	1	1
Total	69	45
Interbank and money market items (liabilities)		
HSBC Group entities		
HSBC Bank USA, N.A.	32	1,140
HSBC Bank Plc.	518	515
HSBC Bank Australia Limited	166	158
Hang Seng Bank Limited	93	54
HSBC Bank Malaysia Berhad	48	43
HSBC Private Banking Holdings (Suisse) S.A.	43	24
HSBC Trinkaus & Burkhardt AG	6	26
HSBC Bank (Taiwan) Limited	3	2
HSBC Bank Vietnam Limited	2	3
Others	72	64
Total	983	2,029

22 Related parties (Cont'd)

Significant balances with related parties as at 31 December 2015 and 2014 consisted of: (Cont'd)

	2015	2014
	<u>Million Baht</u>	<u>Million Baht</u>
<i>Net balance of inter-office accounts with head office and other branches of the same juristic person</i>		
HBAP		
Nostro accounts	(55)	(48)
Vostro accounts	363	1,497
Lending	(7)	-
Borrowings	13,310	5,209
Accrued expenses	574	510
Other payables	2	2
Other receivables	(1)	(3)
Total	<u>14,186</u>	<u>7,167</u>

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.

23 Benefits paid to directors and executives

The Branch has no special benefits given to the directors and executives beyond the general benefits provided such as directors' remuneration, executives' salary and bonus (if any) included ESOP warrants.

	2015	2014
	<u>Million Baht</u>	<u>Million Baht</u>
Short-term employee benefits	189	190
Post-employment benefits	10	10
Share-based payment	25	10
Total	<u>224</u>	<u>210</u>

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.

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25 Interest income

	2015	2014
	Million Baht	Million Baht
Interbank and money market items	889	1,422
Investments and trading transactions	552	404
Investments in debt securities	1,185	1,320
Loans	1,520	1,281
Total interest income	4,146	4,427

26 Interest expense

	2015	2014
	Million Baht	Million Baht
Deposits	616	679
Interbank and money market items	166	298
Contribution to Deposit Protection Agency	479	430
Borrowings	506	578
Total interest expense	1,767	1,985

27 Net fees and service income

	2015	2014
	Million Baht	Million Baht
Fees and service income		
- Acceptances, aval and guarantees	132	114
- Remittances	305	301
- Underwriting, management and consulting	106	91
- Custody	296	327
- Others	98	79
Total	937	912
Fees and service expenses		
- Remittances	54	48
- Others	135	123
Total	189	171
Net	748	741

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28 Net gain on trading and foreign exchange transactions

	2015	2014
	Million Baht	Million Baht
Gain on trading and foreign exchange transactions		
- Foreign currencies and foreign currency related derivatives	2,051	1,283
- Interest rate related derivatives	(1,040)	(535)
- Debt instruments	760	728
Total	1,771	1,476

29 Net gain on investments

	2015	2014
	Million Baht	Million Baht
Gain on sales of available-for-sale investments	58	4
Total	58	4

30 Bad debts, doubtful accounts expense and impairment loss

	2015	2014
	Million Baht	Million Baht
Provision for doubtful accounts		
- Transactions between interbank and money markets	3	2
- Loan to customers	162	196
Total	165	198

31 Employee expenses

	2015	2014
	Million Baht	Million Baht
Wages, salaries and bonus	1,005	941
Post employment benefits - defined benefit plans	23	20
Post employment benefits - defined contribution plans	54	47
Others	139	129
Total	1,221	1,137

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.

32 Other expenses

	2015 Million Baht	2014 Million Baht
Expenses allocated from Head Office	275	267
Others	252	252
Total	527	519

33 Income tax expense

Income tax expense recognised in profit or loss

	Note	2015 Million Baht	2014 Million Baht
Current tax expense			
Current year		404	468
Over provided in prior year		(16)	(7)
		<u>388</u>	<u>461</u>
Deferred tax expense			
Movements in temporary differences	12	126	41
Total income tax expense		<u>514</u>	<u>502</u>

Income tax expense recognised in other comprehensive income

	2015			2014		
	Before tax Million Baht	Tax benefit Million Baht	Net of tax Million Baht	Before tax Million Baht	Tax (expense) benefit Million Baht	Net of tax Million Baht
Available-for-sale investments	(26)	5	(21)	65	(8)	57
Defined benefit plans actuarial losses	(11)	2	(9)	(32)	6	(26)
Others	7	-	7	8	-	8
Total	<u>(30)</u>	<u>7</u>	<u>(23)</u>	<u>41</u>	<u>(2)</u>	<u>39</u>

33 Income tax expense (Cont'd)

Reconciliation of effective tax rate

	2015		2014	
	Rate (%)	Million Baht	Rate (%)	Million Baht
Profit before income tax expense		2,576		2,430
Income tax using the Thai corporation tax rate	20.0	515	20.0	486
Expenses not deductible for tax purposes	0.6	15	0.9	23
Over provided in prior year	(0.6)	(16)	(0.3)	(7)
Total	20.0	514	20.6	502

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 2015 and 2014 in accordance with the clarification issued by the FAP in 2012.