

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

**FINANCIAL STATEMENTS**

**31 DECEMBER 2018**



## Independent Auditor's Report

To the management of The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch.

### My opinion

In my opinion, the financial statements of The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch (the Branch) present fairly, in all material respects, the financial position of the Branch as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Thai Financial Reporting Standards (TFRSs).

### What I have audited

The Branch's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in head office and other branches of the same juristic person for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements which include a summary of significant accounting policies.

### Basis for opinion

I conducted my audit in accordance with Thai Standards on Auditing (TSAs). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the Branch in accordance with the Federation of Accounting Professions under the Royal Patronage of his Majesty the King's Code of Ethics for Professional Accountants together with the ethical requirements that are relevant to my audit of the financial statements, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Responsibilities of the management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with TFRSs, and for such internal control as the management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.



## **Auditor's responsibilities for the audit of the financial statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with TSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with TSAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

PricewaterhouseCoopers ABAS Ltd.

A handwritten signature in black ink, appearing to read 'Sinsiri'.

**Sinsiri Thangsombat**

Certified Public Accountant (Thailand) No. 7352

Bangkok

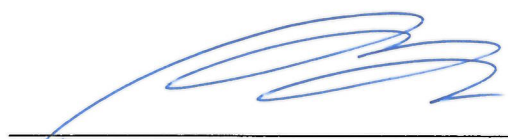
14 February 2019

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch

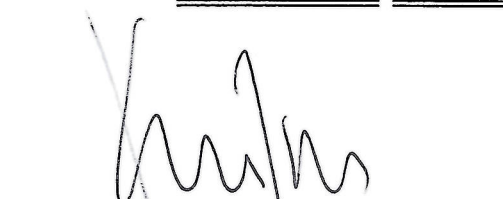
Statement of Financial Position

As at 31 December 2018

		2018	2017
		Thousand	Thousand
	Notes	Baht	Baht
<b>Assets</b>			
Cash		152,673	70,054
Interbank and money market items, net	6, 22	17,001,724	49,427,330
Derivative assets	7	24,541,868	27,071,516
Investments, net	8	76,802,473	69,866,633
Loans to customers and accrued interest receivables, net	9		
Loans to customers		64,816,854	66,697,951
Accrued interest receivables		220,469	189,525
Total loans to customers and accrued interest receivables		65,037,323	66,887,476
<u>Less</u> Deferred revenue		(15,720)	(14,872)
<u>Less</u> Allowance for doubtful accounts	9.4, 10	(1,101,650)	(1,086,105)
Total loans to customers and accrued interest receivables, net	9.1	63,919,953	65,786,499
Customer's liabilities under acceptance		-	412
Leasehold improvements and equipment, net		27,053	22,406
Intangible asset, net		253	75
Leasehold right for land and buildings, net	11	116,602	130,929
Deferred tax assets, net	12	154,299	84,121
Other assets	13	3,585,538	2,847,872
<b>Total assets</b>		<b>186,302,436</b>	<b>215,307,847</b>



Neeranuch Upaphattavanij  
Chief Financial Officer  
Bangkok Branch



Tan Swee Beng Kelvin  
Chief Executive Officer  
Bangkok 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 2018**

		<b>2018</b>	<b>2017</b>
	<b>Notes</b>	<b>Thousand Baht</b>	<b>Thousand Baht</b>
<b>Liabilities and accounts with head office and other branches of the same juristic person</b>			
<b>Liabilities</b>			
Deposits	15	88,217,662	116,340,346
Interbank and money market items	16, 22	20,981,379	9,855,669
Liabilities payable on demand		1,782,781	2,342,485
Derivative liabilities	7	27,824,303	29,357,132
Debt issued and borrowings	17	9,144,715	9,817,691
Bank's liabilities under acceptance		-	412
Employee benefit obligations	18	260,544	238,281
Provisions	19	64,135	105,648
Other liabilities	20	2,973,483	3,875,069
<b>Total liabilities</b>		<b>151,249,002</b>	<b>171,932,733</b>
<b>Accounts with head office and other branches of the same juristic person</b>			
Net funds brought in to maintain assets under the Act	5	20,100,000	20,100,000
Net balance of inter-office accounts with head office and other branches of the same juristic person	22	8,088,266	19,126,269
Other components of accounts with head office and other branches of the same juristic person		59,941	85,309
Retained earnings		6,805,227	4,063,536
<b>Total accounts with head office and other branches of the same juristic person</b>		<b>35,053,434</b>	<b>43,375,114</b>
<b>Total liabilities and accounts with head office and other branches of the same juristic person</b>		<b>186,302,436</b>	<b>215,307,847</b>

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 2018**

		<b>2018</b>	<b>2017</b>
	<b>Notes</b>	<b>Thousand Baht</b>	<b>Thousand Baht</b>
Interest income	22, 26	3,802,391	3,603,262
Interest expense	22, 27	1,685,161	1,516,751
<b>Net interest income</b>		<b>2,117,230</b>	<b>2,086,511</b>
Fees and service income		946,426	908,358
Fees and service expenses		213,064	198,543
<b>Net fees and service income</b>	22, 28	<b>733,362</b>	<b>709,815</b>
Net gain on trading and foreign exchange transactions	29	2,638,560	1,767,689
Other operating income	22	100	822
<b>Total operating income</b>		<b>5,489,252</b>	<b>4,564,837</b>
<b>Other operating expenses</b>			
Employee expenses	23, 31	1,172,812	1,214,488
Premises and equipment expenses		298,961	343,888
Taxes and duties		81,761	73,610
Other expenses	22, 32	540,876	537,169
<b>Total other operating expenses</b>		<b>2,094,410</b>	<b>2,169,155</b>
Bad debts, doubtful accounts expense and impairment loss	30	12,414	547
<b>Operating profit before income tax expense</b>		<b>3,382,428</b>	<b>2,395,135</b>
Income tax expense	33	640,737	501,165
<b>Net profit for the year</b>		<b>2,741,691</b>	<b>1,893,970</b>
<b>Other comprehensive income</b>			
<b><i>Items that will be reclassified subsequently to profit or loss</i></b>			
(Losses) gains on remeasurement of available-for-sale investments		(39,559)	47,758
Other reserves		6,279	(7,780)
Income taxes relating to items that will be reclassified to profit or loss	33	7,912	(9,552)
<b><i>Items that will not be reclassified subsequently to profit or loss</i></b>			
Actuarial gains	18	-	7,172
Income taxes on items that will not be reclassified to profit or loss	33	-	(1,434)
<b>Other comprehensive income (losses) for the year, net of income tax</b>		<b>(25,368)</b>	<b>36,164</b>
<b>Total comprehensive income for the year</b>		<b>2,716,323</b>	<b>1,930,134</b>

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 2018

	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 Gains (losses) on remeasurement of available-for-sale investments Thousand Baht	Other reserves Thousand Baht	Retained earnings Thousand Baht	Total Thousand Baht
<b>Balance at 1 January 2017</b>	20,100,000	9,651,832	(4,192)	53,337	5,487,666	35,288,643
<b>Comprehensive income for the year</b>						
Net profit	-	-	-	-	1,893,970	1,893,970
Other comprehensive income						
Gains on remeasurement of available-for-sale investments, net of income tax	-	-	38,206	-	-	38,206
Actuarial gain, net of income tax	-	-	-	5,738	-	5,738
Other reserves	-	-	-	(7,780)	-	(7,780)
Total other comprehensive income	-	-	38,206	(2,042)	-	36,164
<b>Total comprehensive income for the year</b>	-	-	38,206	(2,042)	1,893,970	1,930,134
Movement in balance of inter-office accounts with head office and other branches of the same juristic person	-	9,474,437	-	-	-	9,474,437
Profit remittance to head office	-	-	-	-	(3,318,100)	(3,318,100)
<b>Balance at 31 December 2017</b>	<u>20,100,000</u>	<u>19,126,269</u>	<u>34,014</u>	<u>51,295</u>	<u>4,063,536</u>	<u>43,375,114</u>
<b>Balance at 1 January 2018</b>	20,100,000	19,126,269	34,014	51,295	4,063,536	43,375,114
<b>Comprehensive income for the year</b>						
Net profit	-	-	-	-	2,741,691	2,741,691
Other comprehensive income						
Losses on remeasurement of available-for-sale investments, net of income tax	-	-	(31,647)	-	-	(31,647)
Other reserves	-	-	-	6,279	-	6,279
Total other comprehensive income	-	-	(31,647)	6,279	-	(25,368)
<b>Total comprehensive income for the year</b>	-	-	(31,647)	6,279	2,741,691	2,716,323
Movement in balance of inter-office accounts with head office and other branches of the same juristic person	-	(11,038,003)	-	-	-	(11,038,003)
<b>Balance at 31 December 2018</b>	<u>20,100,000</u>	<u>8,088,266</u>	<u>2,367</u>	<u>57,574</u>	<u>6,805,227</u>	<u>35,053,434</u>

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 2018**

	<b>2018</b>	<b>2017</b>
	<b>Thousand</b>	<b>Thousand</b>
	<b>Baht</b>	<b>Baht</b>
<b>Cash flows from operating activities</b>		
Operating profit before income tax expenses	3,382,428	2,395,135
<b>Adjustments to reconcile profit from operations before income tax expense to cash received (paid) from operating activities</b>		
Depreciation and amortisation	25,959	25,501
Bad debt, doubtful accounts expense and impairment loss	12,414	547
Unrealised losses (gains) on revaluation of trading investment	194,200	(392,207)
Gains on disposal of equipment	(91)	-
Employee benefit expenses	26,212	26,973
Unrealised losses (gains) on change in foreign exchange	138,169	(777,904)
Unrealised losses on derivative assets and liabilities	996,819	2,517,590
Provisions for contingent liabilities	(22,076)	(118)
Increase in other reserves	(1,623)	(145)
Net interest income	(2,117,230)	(2,086,511)
Proceeds from interest income	3,556,706	3,653,671
Interest paid	(1,672,900)	(1,524,299)
Income tax paid	(692,081)	(807,334)
Net profit from operations before change in operating assets and liabilities	3,826,906	3,030,899
<b>Decrease (increase) in operating assets</b>		
Interbank and money market items	32,401,786	(13,480,424)
Trading investment	382,616	(3,645,315)
Loans to customers	1,800,326	(1,038,242)
Other assets	(786,839)	(1,760,041)
<b>Increase (decrease) in operating liabilities</b>		
Deposits	(28,040,681)	11,707,237
Interbank and money market items	11,126,055	(15,667,537)
Liabilities payable on demand	(559,703)	(501,517)
Debt issued and borrowings	(672,975)	729,041
Employee benefit obligations	(3,949)	(6,593)
Provisions	(19,438)	(46,582)
Other liabilities	(916,868)	(4,617,333)
<b>Net cash provided by (used in) operating activities</b>	<b>18,537,236</b>	<b>(25,296,407)</b>

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 2018**

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	<b>2018</b>	<b>2017</b>
	<b>Thousand</b>	<b>Thousand</b>
	<b>Baht</b>	<b>Baht</b>
	<u>                    </u>	<u>                    </u>
<b>Cash flows from investing activities</b>		
Purchases of available-for-sale investments	(58,096,529)	(36,842,678)
Proceeds from maturity of available-for-sale investments	50,813,000	55,697,000
Purchases of equipment	(16,457)	(7,653)
Proceeds from sales of equipment	91	-
	<u>                    </u>	<u>                    </u>
<b>Net cash (used in) provided by investing activities</b>	<u>(7,299,895)</u>	<u>18,846,669</u>
<b>Cash flows from financing activities</b>		
Profit remittance to head office	-	(3,318,100)
(Decrease) increase in net balance of inter-office accounts with head office and other branches of the same juristic person	<u>(11,154,722)</u>	<u>9,809,189</u>
	<u>                    </u>	<u>                    </u>
<b>Net cash (used in) provided by financing activities</b>	<u>(11,154,722)</u>	<u>6,491,089</u>
<b>Net increase in cash and cash equivalents</b>	82,619	41,351
Cash and cash equivalents at the beginning of the year	<u>70,054</u>	<u>28,703</u>
	<u>                    </u>	<u>                    </u>
<b>Cash and cash equivalents at the end of the year</b>	<u><u>152,673</u></u>	<u><u>70,054</u></u>

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

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## **1 General information**

References to 'HSBC', 'the Group' or 'the HSBC Group' within this document mean HSBC Holdings plc together with its subsidiaries.

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's financial statements have been approved for issue by the Branch's management on 14 February 2019.

## **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, Fair value of financial instruments.

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 Revised accounting standards, revised financial reporting standards, and related interpretations

2.2.1 Revised financial reporting standards and interpretations are effective on 1 January 2018 which are relevant and have a significant impact to the Branch.

TAS 7 (revised 2017)	Statement of cash flows
TAS 12 (revised 2017)	Income taxes

TAS 7 (revised 2017), the amendments require additional disclosure of changes in liabilities arising from financing activities. This includes changes arising from cash and non-cash.

TAS 12 (revised 2017), the amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

- A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.
- An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
- Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.
- Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profits.

The Branch has already applied those accounting standards.

2.2.2 New and revised financial reporting standards and interpretation which have been issued but not yet effective.

2.2.2.1 The FAP has issued new standard, TFRS15 Revenue from contracts with customers. This standard will become effective for annual periods beginning on or after 1 January 2019. The Branch has not early adopted this standard.

TFRS 15 provide the requirements for the recognition of revenue. This standard will supersede the following standards:

TAS 18 (revised 2017)	Revenue
TFRIC 13 (revised 2017)	Customer Loyalty Programmes
TFRIC 18 (revised 2017)	Transfers of Assets from Customers

## 2 Significant accounting policies (Cont'd)

### 2.2 Revised accounting standards, revised financial reporting standards, and related interpretations (Cont'd)

#### 2.2.2 New and revised financial reporting standards and interpretation which have been issued but not yet effective. (Cont'd)

##### 2.2.2.1 The FAP has issued new standard, TFRS15 Revenue from contracts with customers. This standard will become effective for annual periods beginning on or after 1 January 2019. The Branch has not early adopted this standard. (Cont'd)

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.

An entity recognises revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Key changes to current practice are:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements
- Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc) - minimum amounts must be recognised if they are not at significant risk of reversal
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa
- There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements
- As with any new standard, there are also increased disclosures.

Entities will have a choice to apply this standard retrospectively in accordance with TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, subject to the expedients or retrospectively with the cumulative effect recognised as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application with additional disclosures.

The management assessed that the impact of initial adoption of this standard is not significant to the Branch.

## 2 Significant accounting policies (Cont'd)

### 2.2 Revised accounting standards, revised financial reporting standards, and related interpretations (Cont'd)

2.2.2 New and revised financial reporting standards and interpretation which have been issued but not yet effective. (Cont'd)

2.2.2.2 Revised financial reporting standards will become effect for annual periods beginning on or after 1 January 2019 and are relevant to the Branch. The Branch has not yet adopt these standards.

TFRS 2 (revised 2018)      Share-based Payment

TFRS 2, the amendments clarify;

- The measurement basis for cash-settled share-based payments, vesting conditions, other than market conditions, shall not be taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, vesting conditions, other than market conditions, shall be taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction.
- Where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority, the whole award will be treated as if it was equity-settled provided it would have been equity-settled without the net settlement feature, and
- The accounting for modifications that change an award from cash-settled to equity-settled.

The management assessed that the impact of initial adoption of this standard is not significant to the Branch.

2.2.2.3 The financial instruments reporting standards consist of the following standards. These standards could be early adopted before the effective date only for the period beginning on or after 1 January 2019.

TAS 32	Financial instruments: Presentation
TFRS 7	Financial Instruments: Disclosures
TFRS 9	Financial Instruments
TFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The above new standards and interpretations will supersede the following standards:

TAS 101	Bad and Doubtful Debts
TAS 103	Disclosures in the Financial Statements of Bank and Similar Financial Institutions
TAS 104	Accounting for Troubled Debt Restructuring
TAS 105	Accounting for Investment in Debts and Equity securities
TAS 107	Financial Instruments: Disclosure and Presentation

## 2 Significant accounting policies (Cont'd)

### 2.2 Revised accounting standards, revised financial reporting standards, and related interpretations (Cont'd)

2.2.2 New and revised financial reporting standards and interpretation which have been issued but not yet effective. (Cont'd)

2.2.2.3 The financial instruments reporting standards consist of the following standards. These standards could be early adopted before the effective date only for the period beginning on or after 1 January 2019. (Cont'd)

TAS 32 Financial Instruments: Presentation, provides the requirements for the presentation financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.

TFRS 7 Financial Instruments: Disclosures, provides the requirements for the disclosure that are intended to enable users to evaluate the significance of financial instruments for an entity's financial position and performance, and to understand the nature and extent of risks arising from those financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

TFRS 9 Financial Instruments, establishes principles for the classification, measurement and derecognition of financial assets and financial liabilities, impairment requirement and hedge accounting as follow:

- Classification and measurement:

- The classification and measurement of debt instrument financial assets has three classification categories, which are amortised cost, fair value through profit or loss and fair value through other comprehensive income. Classification of debt assets will be driven by the entity's business model for managing the financial assets and contractual cash flows characteristics of the financial assets.
- Equity instrument financial assets shall be measured at fair value through profit or loss. An entity can make an irrevocable election to recognise the fair value change in other comprehensive income without subsequent recycling to profit or loss.
- Financial liabilities are classified and measured at amortised cost. An entity can choose to measure a liability at fair value through profit or loss when the conditions are met.
- Derivatives are classified and measured at fair value through profit or loss.

## 2 Significant accounting policies (Cont'd)

### 2.2 Revised accounting standards, revised financial reporting standards, and related interpretations (Cont'd)

2.2.2 New and revised financial reporting standards and interpretation which have been issued but not yet effective. (Cont'd)

2.2.2.3 The financial instruments reporting standards consist of the following standards. These standards could be early adopted before the effective date only for the period beginning on or after 1 January 2019. (Cont'd)

- The impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets measured at amortised cost, investments in debt instruments measured at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts. It is no longer necessary for a credit event to have occurred before credit losses are recognised. The entity always accounts for expected credit losses which involves a three stage approach. The stage dictates how the entity measures impairment losses and applies the effective interest rate method. Except for trade receivables and contractual assets which apply in TFRS 15 and are no significant financial components and lease receivables, they are permitted to measure by simplified approach for credit impaired consideration.
- The objective of hedge accounting is to represent, in the financial statements, the effect of an entity's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss (or other comprehensive income, in the case of investments in equity instruments for which an entity has elected to present changes in fair value in other comprehensive income). This approach aims to convey the context of hedging instruments for which hedge accounting is applied in order to allow insight into their purpose and effect.

TFRIC 19 Extinguishing financial liabilities with equity instruments, provides the requirements for accounting treatment when the entity issues equity instruments to a creditor to extinguish all or part of a financial liability. The equity instruments issued shall be measured at fair value. The entity shall remove a financial liability (or part of a financial liability) from its statement of financial position when it is extinguished in accordance with TFRS 9. The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished and the fair value of equity instruments issued shall be recognised in profit or loss.

The management is currently assessing the impact of initial adoption of these standards.

## 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 according to the BoT's Notification.

### 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. For debt securities, other than impairment losses and any foreign currency differences, are recognised directly in the accounts with head office and other branches of the same juristic person. Impairment losses and any foreign currency differences are recognised in profit or loss. For marketable equity securities, other than impairment losses are recognised directly in the accounts with head office and other branches of the same juristic person. Impairment losses is 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 by reference to the Thai Bond Market Association.

## 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 overdue 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 Leasehold improvements and equipment**

All other leasehold improvements and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Branch and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other (losses)/gains - net' in profit or loss.

### **2.10 Leasehold right for land and buildings**

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

### **2.11 Impairment**

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2 Significant accounting policies (Cont'd)

### 2.12 Current and deferred income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income Accounts with head office and other branches of the same juristic person. In this case the tax is also recognised in other comprehensive income or Accounts with head office and other branches of the same juristic person, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting period in the countries where the Branch operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising from differences between the tax base of assets and liabilities and their carrying amounts in the financial statements.

However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 2 Significant accounting policies (Cont'd)

### 2.13 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.

#### *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 Significant accounting policies (Cont'd)

### 2.14 Employee benefits

#### *Post-employment benefits*

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

#### *Defined contribution plan*

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

#### *Defined benefit plans*

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

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

#### *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 branches 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 Significant accounting policies (Cont'd)**

### **2.15 Share-based payment**

The Branch enters into equity-settled share-based payment arrangements with its employees as compensation for services provided by employees. The cost of equity-settled share-based payment arrangements with employees is measured by reference to the fair value of equity instruments on the date they are granted and recognised as an expense on a straight-line basis over the vesting period, with a corresponding credit to 'Other Comprehensive Income'.

A cancellation that occurs during the vesting period is treated as an acceleration of vesting and is recognised immediately for the amount that would otherwise have been recognised for services over the vesting period.

HSBC Holdings is the grantor of its equity instruments for all share awards across the Group. The credit to 'Other reserves' over the vesting period on expensing an award represents the effective capital contribution from HSBC Holdings. To the extent the Group will be, or has been, required to fund a share-based payment arrangement, this capital contribution is reduced and the fair value of shares expected to be released to employees is recorded within 'Other liabilities'.

### **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.

Interest income on loans and receivable is recognised on an accrual basis. The Branch discontinues recognition of accrued interest income for loans overdue more than three months since the due date or there is uncertainty of collectability, and a collection basis is applied. The Branch also reverses interest income on such loans in order to comply with the Bank of Thailand's notification.

### **2.18 Non-interest income and expenses**

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

Non-interest expenses are recognised on an accrual basis.

## 2 Significant accounting policies (Cont'd)

### 2.19 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:

### 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 2018 and 2017 were as follows:

	2018 Million Baht	2017 Million Baht
Forward exchange contracts	17,887	15,108
Forward interest rate contracts	13,212	15,469
Equity options	16	18
<b>Total</b>	<b>31,115</b>	<b>30,595</b>

### 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.

### 3 Financial risk management (Cont'd)

#### 3.2 Market risk (Cont'd)

##### (a) Interest rate risk

Interest rate risk arises from the potential for a change in interest rates which may have an adverse effect on the value of the Branch's financial instruments or Branch's earnings or cost of funds, both in the current reporting period and future years. Interest rate risk arises from the structure and characteristic of the Branch's assets, liabilities and accounts with head office and other branches of the same juristic person, and from the mismatch in repricing dates of its assets and liabilities. The Branch mitigates this risk by using derivative financial instruments, principally interest rate swaps, to manage its exposure to fluctuations in interest rates on specific financial instruments.

As at 31 December 2018, significant financial assets and liabilities classified by type of interest rate were as follows:

	2018			
	Floating interest rate Million Baht	Fixed interest rate Million Baht	Non - interest bearing Million Baht	Total Million Baht
<b>Financial assets</b>				
Cash	-	-	153	153
Interbank and money market items, net	3	12,034	4,965	17,002
Investments, net	998	75,804	-	76,802
Loans to customers <sup>(1)</sup>	28,328	36,231	463	65,022
Other assets	3,296	-	200	3,496
<b>Total financial assets</b>	<b>32,625</b>	<b>124,069</b>	<b>5,781</b>	<b>162,475</b>
<b>Financial liabilities</b>				
Deposits	66,191	8,928	13,099	88,218
Interbank and money market items	7,135	9,465	4,381	20,981
Liabilities payable on demand	-	-	1,783	1,783
Debt issued and borrowings	9,145	-	-	9,145
Other liabilities	1,519	-	53	1,572
<b>Total financial liabilities</b>	<b>83,990</b>	<b>18,393</b>	<b>19,316</b>	<b>121,699</b>

<sup>(1)</sup> Loans to customers and accrued interest receivable net of deferred revenue

### 3 Financial risk management (Cont'd)

#### 3.2 Market risk (Cont'd)

##### (a) Interest rate risk (Cont'd)

As at 31 December 2017, significant financial assets and liabilities classified by type of interest rate were as follows:

	2017			
	Floating interest rate Million Baht	Fixed interest rate Million Baht	Non - interest bearing Million Baht	Total Million Baht
<b>Financial assets</b>				
Cash	-	-	70	70
Interbank and money market items, net	890	45,744	2,793	49,427
Investments, net	106	69,761	-	69,867
Loans to customers <sup>(1)</sup>	33,538	32,903	431	66,872
Other assets	2,519	-	329	2,848
<b>Total financial assets</b>	<b>37,053</b>	<b>148,408</b>	<b>3,623</b>	<b>189,084</b>
<b>Financial liabilities</b>				
Deposits	87,562	15,512	13,266	116,340
Interbank and money market items	4,385	1,110	4,361	9,856
Liabilities payable on demand	-	-	2,342	2,342
Debt issued and borrowings	9,818	-	-	9,818
Other liabilities	1,638	-	2,237	3,875
<b>Total financial liabilities</b>	<b>103,403</b>	<b>16,622</b>	<b>22,206</b>	<b>142,231</b>

<sup>(1)</sup> Loans to customers and accrued interest receivable net of deferred revenue

### 3 Financial risk management (Cont'd)

#### 3.2 Market risk (Cont'd)

##### (a) Interest rate 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 2018 were as follows:

	2018						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	
<b>Financial assets</b>							
Cash	-	-	-	-	153	153	-
Interbank and money market items, net	11,647	390	-	-	4,965	17,002	1.89
Investments, net	12,666	28,692	14,831	20,613	-	76,802	1.93
Loans to customers and accrued interest receivable, net of deferred revenue	49,553	8,533	5,161	1,312	463	65,022	2.61
Other assets	3,296	-	-	-	200	3,496	1.42
<b>Total financial assets</b>	<b>77,162</b>	<b>37,615</b>	<b>19,992</b>	<b>21,925</b>	<b>5,781</b>	<b>162,475</b>	
<b>Financial liabilities</b>							
Deposits	72,159	2,960	-	-	13,099	88,218	0.82
Interbank and money market items	16,600	-	-	-	4,381	20,981	3.85
Liabilities payable on demand	-	-	-	-	1,783	1,783	-
Debt issued and borrowings	6,512	2,633	-	-	-	9,145	3.14
Other liabilities	1,519	-	-	-	53	1,572	1.75
<b>Total financial liabilities</b>	<b>96,790</b>	<b>5,593</b>	<b>-</b>	<b>-</b>	<b>19,316</b>	<b>121,699</b>	
<b>Effect of derivatives held for risk management</b>	<b>78,210</b>	<b>(83,245)</b>	<b>(7,210)</b>	<b>12,245</b>	<b>710,159</b>	<b>710,159</b>	

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 2017 were as follows:

	2017						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	
<b>Financial assets</b>							
Cash	-	-	-	-	70	70	-
Interbank and money market items, net	46,553	81	-	-	2,793	49,427	1.54
Investments, net	15,890	22,733	14,747	16,497	-	69,867	1.82
Loans to customers and accrued interest receivable, net of deferred revenue	54,508	8,976	1,842	1,357	189	66,872	2.44
Other assets	2,519	-	-	-	329	2,848	1.02
<b>Total financial assets</b>	<b>119,470</b>	<b>31,790</b>	<b>16,589</b>	<b>17,854</b>	<b>3,381</b>	<b>189,084</b>	
<b>Financial liabilities</b>							
Deposits	100,193	2,881	-	-	13,266	116,340	0.72
Interbank and money market items	5,495	-	-	-	4,361	9,856	2.25
Liabilities payable on demand	-	-	-	-	2,342	2,342	-
Debt issued and borrowings	7,288	2,530	-	-	-	9,818	3.35
Other liabilities	1,638	-	-	-	2,237	3,875	1.31
<b>Total financial liabilities</b>	<b>114,614</b>	<b>5,411</b>	<b>-</b>	<b>-</b>	<b>22,206</b>	<b>142,231</b>	
<b>Effect of derivatives held for risk management</b>	<b>42,283</b>	<b>(45,810)</b>	<b>(4,894)</b>	<b>8,421</b>	<b>425,877</b>	<b>425,877</b>	

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 2018 and 2017, the Branch has net open position assets (liabilities) denominated in the various currencies as follows;

	2018 Million Baht	2017 Million Baht
<b>Net foreign currency exposure*</b>		
US Dollar	4,395	(4,790)
Euro	190	2,110
Yen	(48)	(33)
Pound	898	962
Singapore Dollar	(57)	(157)
Others	255	43

\* No non-performing loans amounting in foreign currency exposure at 31 December 2018 and 2017.

##### (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.

**The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2018**

**3 Financial risk management (Cont'd)**

**3.3 Liquidity risk (Cont'd)**

A maturity analysis of financial assets and liabilities as at 31 December 2018 and 2017 was as follows:

	2018						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	
<b>Financial assets</b>							
Cash	-	-	-	-	-	153	153
Interbank and money market items, net	5,092	11,519	391	-	-	-	17,002
Derivative assets	233	3,598	3,230	8,929	8,552	-	24,542
Investments, net	-	12,666	28,692	14,831	20,613	-	76,802
Loans to customers and accrued interest receivable, net	-	28,431	9,813	22,585	3,091	-	63,920
Other assets	-	3,496	-	-	-	-	3,496
<b>Total financial assets</b>	<b>5,325</b>	<b>59,710</b>	<b>42,126</b>	<b>46,345</b>	<b>32,256</b>	<b>153</b>	<b>185,915</b>
<b>Financial liabilities</b>							
Deposits	79,290	5,968	2,960	-	-	-	88,218
Interbank and money market items	11,516	9,465	-	-	-	-	20,981
Liabilities payable on demand	1,783	-	-	-	-	-	1,783
Derivative liabilities	265	2,860	3,989	8,779	11,931	-	27,824
Debt issued and borrowings	-	-	1,593	3,894	3,658	-	9,145
Other liabilities	-	1,572	-	-	-	-	1,572
<b>Total financial liabilities</b>	<b>92,854</b>	<b>19,865</b>	<b>8,542</b>	<b>12,673</b>	<b>15,589</b>	<b>-</b>	<b>149,523</b>
<b>Liquidity gap, net</b>	<b>(87,529)</b>	<b>39,845</b>	<b>33,584</b>	<b>33,672</b>	<b>16,667</b>	<b>153</b>	<b>36,392</b>

	2017						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	
<b>Financial assets</b>							
Cash	-	-	-	-	-	70	70
Interbank and money market items, net	3,326	46,020	81	-	-	-	49,427
Derivative assets	87	2,259	3,720	11,208	9,798	-	27,072
Investments, net	-	15,890	22,733	14,747	16,497	-	69,867
Loans to customers and accrued interest receivable, net	-	34,807	8,976	16,787	5,216	-	65,786
Other assets	-	2,519	-	-	-	329	2,848
<b>Total financial assets</b>	<b>3,413</b>	<b>101,495</b>	<b>35,510</b>	<b>42,742</b>	<b>31,511</b>	<b>399</b>	<b>215,070</b>
<b>Financial liabilities</b>							
Deposits	100,828	12,631	2,881	-	-	-	116,340
Interbank and money market items	8,746	1,110	-	-	-	-	9,856
Liabilities payable on demand	2,342	-	-	-	-	-	2,342
Derivative liabilities	297	2,171	4,094	10,755	12,040	-	29,357
Debt issued and borrowings	-	248	-	6,035	3,535	-	9,818
Other liabilities	-	1,638	-	-	-	2,237	3,875
<b>Total financial liabilities</b>	<b>112,213</b>	<b>17,798</b>	<b>6,975</b>	<b>16,790</b>	<b>15,575</b>	<b>2,237</b>	<b>171,588</b>
<b>Liquidity gap, net</b>	<b>(108,800)</b>	<b>83,697</b>	<b>28,535</b>	<b>25,952</b>	<b>15,936</b>	<b>(1,838)</b>	<b>43,482</b>

#### 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.

##### *Fair value adjustments*

Fair value adjustments are adopted when the Branch considers that there are additional factors that would be considered relevant by a market participant that are not incorporated within the valuation model. The Branch classifies fair value adjustments as either 'risk-related' or 'model-related'. The majority of these adjustments relate to Global Banking and Markets.

##### *Risk-related adjustments*

###### *Bid-offer*

IFRS 13 requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of, or unwinding the position.

###### *Uncertainty*

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, there exists a range of possible values that the financial instrument or market parameter may assume and an adjustment may be necessary to reflect the likelihood that in estimating the fair value of the financial instrument, market participants would adopt more conservative values for uncertain parameters and/or model assumptions than those used in the valuation model.

###### *Credit valuation adjustment*

The credit valuation adjustment is an adjustment to the valuation of over-the-counter ("OTC") derivative contracts to reflect within fair value the possibility that the counterparty may default and the Branch may not receive the full market value of the transactions.

#### 4 Fair value of financial instruments (Cont'd)

##### ***Fair value adjustments*** (Cont'd)

###### *Debit valuation adjustment*

The debit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the Branch may default, and that the Branch may not pay full market value of the transactions.

###### *Funding fair value adjustment*

The funding fair value adjustment is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. This includes the uncollateralised component of collateralised derivatives in addition to derivatives that are fully uncollateralised. The expected future funding exposure is calculated by a simulation methodology, where available. The expected future funding exposure is adjusted for events that may terminate the exposure such as the default of the Branch or the counterparty. The funding fair value adjustment and debit valuation adjustment are calculated independently.

##### ***Model-related adjustments***

###### *Model limitation*

Models used for portfolio valuation purposes may be based upon a simplifying set of assumptions that do not capture all material market characteristics. Additionally, markets evolve, and models that were adequate in the past may require development to capture all material market characteristics in current market conditions. In these circumstances, model limitation adjustments are adopted. As model development progresses, model limitations are addressed within the valuation models and a model limitation adjustment is no longer needed.

###### *Inception profit (Day 1 profit or loss reserves)*

Inception profit adjustments are adopted when the fair value estimated by a valuation model is based on one or more significant unobservable inputs.

##### ***Credit valuation adjustment/debit valuation adjustment methodology***

The Group calculates a separate credit valuation adjustment ("CVA") and debit valuation adjustment ("DVA") for each Group legal entity, and within each entity for each counterparty to which the entity has exposure. The Branch calculates the CVA by applying the probability of default ("PD") of the counterparty conditional on the non-default of the Branch, to the expected positive exposure of the Branch to the counterparty, and multiplying the result by the loss expected in the event of default. Conversely, the Branch calculates the DVA by applying the PD of the Branch, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to the Branch, and multiplying by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

For most products, the Branch uses a simulation methodology to calculate the expected positive exposure to a counterparty. This incorporates a range of potential exposures across the portfolio of transactions with the counterparty over the life of portfolio. The simulation methodology includes credit mitigants such as counterparty netting agreements and collateral agreements with the counterparty.

For certain types of exotic derivatives where the products are not currently supported by the simulation, or for derivative exposures in smaller trading locations where the simulation tool is not yet available, the Branch adopts alternative methodologies.

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

4 Fair value of financial instruments (Cont'd)

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 2018.

	2018			
	Level 1 Million Baht	Level 2 Million Baht	Level 3 Million Baht	Total Million Baht
<b>Financial assets</b>				
<b>Financial assets at fair value through profit or loss</b>				
Trading investments	17,136	8,256	-	25,392
Derivatives	31	24,448	63	24,542
<b>Available-for-sale financial assets</b>				
Debt securities	700	50,710	-	51,410
<b>Total financial assets</b>	<u>17,867</u>	<u>83,414</u>	<u>63</u>	<u>101,344</u>
<b>Financial liabilities</b>				
<b>Financial liabilities at fair value through profit or loss</b>				
Debt issued and borrowings	-	8,827	318	9,145
Derivatives	59	27,756	9	27,824
<b>Total financial liabilities</b>	<u>59</u>	<u>36,583</u>	<u>327</u>	<u>36,969</u>

Transfers between Level 1 and Level 2 fair values during the year 2018 can be summarised as follows:

	Assets	
	Trading investment Million Baht	Available-for-sale financial assets Million Baht
<b>At 31 December 2018</b>		
Transfers from Level 1 to Level 2	124	-
Transfers from Level 2 to Level 1	2,212	700

Transfers between levels of the fair value hierarchy are primarily attributable to observability of valuation inputs.

#### 4 Fair value of financial instruments (Cont'd)

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

The following table presents the Branch's financial assets and liabilities carried at fair value by fair value hierarchy at 31 December 2017.

	2017			
	Level 1 Million Baht	Level 2 Million Baht	Level 3 Million Baht	Total Million Baht
<b>Financial assets</b>				
<b>Financial assets at fair value through profit or loss</b>				
Trading investments	15,604	10,365	-	25,969
Derivatives	13	26,921	138	27,072
<b>Available-for-sale financial assets</b>				
Debt securities	3,191	40,707	-	43,898
<b>Total financial assets</b>	<u>18,808</u>	<u>77,993</u>	<u>138</u>	<u>96,939</u>
<b>Financial liabilities</b>				
<b>Financial liabilities at fair value through profit or loss</b>				
Debt issued and borrowings	-	9,490	328	9,818
Derivatives	14	29,337	6	29,357
<b>Total financial liabilities</b>	<u>14</u>	<u>38,827</u>	<u>334</u>	<u>39,175</u>

Transfers between Level 1 and Level 2 fair values during the year 2017 can be summarised as follows:

	Assets	
	Trading investment Million Baht	Available-for- sale financial assets Million Baht
<b>At 31 December 2017</b>		
Transfers from Level 1 to Level 2		3
Transfers from Level 2 to Level 1		-
		202
		6

Transfers between levels of the fair value hierarchy are primarily attributable to observability of valuation inputs.

#### 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 and third parties such as 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*

Structured notes, presented as debt issued and borrowings, are trading liabilities and are measured at fair value.

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. The fair value includes the effect of applying the credit spread which is appropriate to the Branch's liabilities. The change in fair value of issued debt securities attributable to the Branch's own credit spread is computed as follows: for each security at each reporting date, an externally verifiable price is obtained or a price is derived using credit spreads for similar securities for the same issuer. Then, using discounted cash flow, each security is valued using a THBFIX based discount curve. The difference in the valuations is attributable to the Branch's own credit spread.

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 2018.

	<b>Derivatives assets Million Baht</b>	<b>Derivatives liabilities Million Baht</b>	<b>Trading liabilities at fair value through profit or loss Million Baht</b>
At 1 January 2018	138	6	328
Gains and losses recognised in profit or loss	5	3	(2)
Settlements	-	-	(8)
Transfers out	(80)	-	-
<b>At 31 December 2018</b>	<b>63</b>	<b>9</b>	<b>318</b>
Unrealised losses for the year included in profit or loss for assets/liabilities held at 31 December 2018	(25)	(3)	13

**Effect of changes in significant unobservable assumptions to reasonably possible alternatives**

It should be noted that there is no significantly effect of changes in significant unobservable assumptions to reasonably possible alternatives.

#### 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 (Cont'd)*

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 2017.

	Derivatives assets Million Baht	Derivatives liabilities Million Baht	Trading liabilities at fair value through profit or loss Million Baht
At 1 January 2017	8	-	326
Gains and losses recognised in profit or loss	(8)	6	4
Settlements	8	-	(2)
Transfers in	130	-	-
<b>At 31 December 2017</b>	<b>138</b>	<b>6</b>	<b>328</b>
Unrealised losses for the year included in profit or loss for assets/liabilities held at 31 December 2017	8	6	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***

It should be noted that there is no significantly effect of changes in significant unobservable assumptions to reasonably possible alternatives.

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 2018. 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 as follows:

*Quantitative information about the significant unobservable inputs used in Level 3 fair value measurements*

	Fair value		Valuation technique	Key unobservable inputs	Full range of inputs		Core range of inputs	
	Assets Million Baht	Liabilities Million Baht			Lower	Higher	Lower	Higher
<b>Other derivatives</b>								
Interest rate derivatives	63	9	Price - Market comparable approach	IR Basis	2.3%	2.6%	2.3%	2.6%
<b>Structure notes</b>	-	318	Model - Option model	IR Correlation	87.8%	99.0%	87.8%	99.0%
At 31 December 2018	63	327						

#### 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 (Cont'd)*

The table below lists key unobservable inputs to Level 3 financial instruments and provides the range of those inputs as at 31 December 2017. 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 as follows:

###### *Quantitative information about the significant unobservable inputs used in Level 3 fair value measurements*

	Fair value		Valuation technique	Key unobservable inputs	Full range of inputs		Core range of inputs	
	Assets Million Baht	Liabilities Million Baht			Lower	Higher	Lower	Higher
<b>Other derivatives</b>								
Interest rate derivatives	138	6	Price - Market comparable approach	IR Basis	2.2%	2.5%	2.2%	2.5%
<b>Structure notes</b>	-	328	Model - Option model	IR Correlation	87.9%	99.0%	87.9%	99.0%
At 31 December 2017	138	334						

#### 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 2018.

	2018			
	Level 1 Million Baht	Level 2 Million Baht	Level 3 Million Baht	Total Million Baht
<b>Financial assets</b>				
Cash	153	-	-	153
Interbank and money market items, net	-	17,002	-	17,002
Loans to customers and accrued interest receivables	-	-	64,904	64,904
<b>Total financial assets</b>	<b>153</b>	<b>17,002</b>	<b>64,904</b>	<b>82,059</b>
<b>Financial liabilities</b>				
Deposits	-	88,218	-	88,218
Interbank and money market items	-	20,981	-	20,981
<b>Total financial liabilities</b>	<b>-</b>	<b>109,199</b>	<b>-</b>	<b>109,199</b>

The following table presents the Branch's financial assets and liabilities not carried at fair value by fair value hierarchy at 31 December 2017.

	2017			
	Level 1 Million Baht	Level 2 Million Baht	Level 3 Million Baht	Total Million Baht
<b>Financial assets</b>				
Cash	70	-	-	70
Interbank and money market items, net	-	49,427	-	49,427
Loans to customers and accrued interest receivables	-	-	66,758	66,758
<b>Total financial assets</b>	<b>70</b>	<b>49,427</b>	<b>66,758</b>	<b>116,255</b>
<b>Financial liabilities</b>				
Deposits	-	116,340	-	116,340
Interbank and money market items	-	9,856	-	9,856
<b>Total financial liabilities</b>	<b>-</b>	<b>126,196</b>	<b>-</b>	<b>126,196</b>

#### 4 Fair value of financial instruments (Cont'd)

##### 4.2 Fair values of financial instruments not carried at fair value (Cont'd)

###### ***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.

###### ***Deposits***

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 2018 and 2017, can be summarised as follows:

	<b>2018</b>	<b>2017</b>
	<b>Million Baht</b>	<b>Million Baht</b>
<b>Assets maintained under Section 32</b>	<b>20,624</b>	<b>21,175</b>
<b>Sum of net capital for maintenance of assets under Section 32 and net balance of inter-office accounts</b>		
Net fund brought in to maintenance assets under Section 32	20,100	20,100
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	8,173	19,240
<b>Total</b>	<b>28,273</b>	<b>39,340</b>
<b>Regulatory Capital (in million Baht)</b>	<b>20,100</b>	<b>20,100</b>
<b>Regulatory Capital after deducting capital add-on from Single Lending Limit (in million Baht)</b>	<b>19,898</b>	<b>19,653</b>
<b>Capital Adequacy Ratio (%)</b>	<b>19.54</b>	<b>18.18</b>
<b>Capital Adequacy Ratio after deducting capital add-on from Single Lending Limit (%)</b>	<b>19.35</b>	<b>17.78</b>

## 5 Maintenance of capital fund (Cont'd)

As at 31 December 2018 and 2017, 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 2018 and 2017, 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% plus capital conservation buffer of 2.5%. The conservation buffer are being phased in: starting at 0.625% on 1 January 2016 and increasing a further 0.625% each year in order to reach 2.5% on 1 January 2019.

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" and Sor Nor Sor 2/2561 dated 25 January 2018, Re: "Liquidity Coverage Ratio Disclosure Standards", the Branch intends to disclose Capital Maintenance and Liquidity Coverage Ratio information as at 31 December 2018 within 4 months after the year end date as indicated in the notification through the Branch's website [www.hsbc.co.th](http://www.hsbc.co.th).

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

	2018			2017		
	At call Million Baht	Term Million Baht	Total Million Baht	At call Million Baht	Term Million Baht	Total Million Baht
<b>Domestic</b>						
The Bank of Thailand and Financial Institutions						
Development Fund	126	-	126	565	2,031	2,596
Commercial banks	457	11,293	11,750	552	39,430	39,982
Specialised financial institutions	-	-	-	-	4,300	4,300
Other financial institutions	-	-	-	380	-	380
Add Accrued interest receivable	-	6	6	-	15	15
Less Deferred revenue	-	(2)	(2)	-	(1)	(1)
Allowance for doubtful accounts	(1)	-	(1)	(4)	-	(4)
<b>Total domestic</b>	<b>582</b>	<b>11,297</b>	<b>11,879</b>	<b>1,493</b>	<b>45,775</b>	<b>47,268</b>
<b>Foreign</b>						
US Dollar	3,674	608	4,282	1,407	231	1,638
Euro	681	-	681	355	-	355
Other currencies	155	-	155	71	96	167
Add Accrued interest receivable	-	5	5	-	-	-
Less Deferred revenue	-	-	-	-	(1)	(1)
<b>Total foreign</b>	<b>4,510</b>	<b>613</b>	<b>5,123</b>	<b>1,833</b>	<b>326</b>	<b>2,159</b>
<b>Total domestic and foreign</b>	<b>5,092</b>	<b>11,910</b>	<b>17,002</b>	<b>3,326</b>	<b>46,101</b>	<b>49,427</b>

## 7 Derivatives

### Derivatives held for trading

As at 31 December 2018 and 2017, fair value and notional amount of derivatives classified by type of risks are as follows:

Type of risk	2018				
	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	10,708	12,474	778,515	238,905	1,017,420
Interest rate	13,616	15,006	430,689	914,288	1,344,977
Others					
- Equities	2	-	-	173	173
- Bond	216	344	10,522	7,935	18,457
<b>Total</b>	<b>24,542</b>	<b>27,824</b>	<b>1,219,726</b>	<b>1,161,301</b>	<b>2,381,027</b>

Type of risk	2017				
	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	10,178	11,880	465,658	228,659	694,317
Interest rate	16,655	17,149	403,160	992,196	1,395,356
Others					
- Equities	4	-	-	174	174
- Bond	235	328	3,950	9,185	13,135
<b>Total</b>	<b>27,072</b>	<b>29,357</b>	<b>872,768</b>	<b>1,230,214</b>	<b>2,102,982</b>

As at 31 December 2018 and 2017, proportions of the notional amount of derivative transactions, classified by counterparties, consisted of:

	2018 %	2017 %
<b>Counterparty</b>		
Financial institutions	59	57
Related parties	33	35
Third parties	8	8
<b>Total</b>	<b>100</b>	<b>100</b>

## 8 Investments, net

### 8.1 Classification of investment in securities

As at 31 December 2018 and 2017, the Branch classified investment types, as follows:

	<b>2018</b>	<b>2017</b>
	<b>Fair value</b>	<b>Fair value</b>
	<b>Million Baht</b>	<b>Million Baht</b>
<b>Trading investments</b>		
Government and state enterprise securities	23,553	25,242
Private debt instruments	1,839	727
<b>Total</b>	<b>25,392</b>	<b>25,969</b>
<b>Available-for-sale investments</b>		
Government and state enterprise securities	51,410	43,898
<b>Total</b>	<b>51,410</b>	<b>43,898</b>
<b>Total investments, net</b>	<b>76,802</b>	<b>69,867</b>

As at 31 December 2018, investments classified as available-for-sale with market values of Baht 20,624 million, Baht 12,710 million and Baht 8,890 million (2017: Baht 21,175 million, Baht 15,646 million and nil) were maintained as capital fund under the Bank of Thailand's regulation, pledged with the Bank of Thailand for intraday liquidity facilities and securities requirement for settlement and collateralised to other parties under repurchase agreements, respectively.

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

	<b>2018</b>	<b>2017</b>
	<b>Fair value</b>	<b>Fair value</b>
	<b>Million Baht</b>	<b>Million Baht</b>
<b>Gain on investments</b>		
Debt securities	33	42
<b>Loss on investments</b>		
Debt securities	(30)	-
<b>Total</b>	<b>3</b>	<b>42</b>
<u>Less</u> Deferred tax	-	(8)
<b>Net</b>	<b>3</b>	<b>34</b>

**9 Loans to customers and accrued interest receivables, net**

**9.1 Classified by type of loans**

	<b>2018</b>	<b>2017</b>
	<b>Million Baht</b>	<b>Million Baht</b>
Overdrafts	1,027	498
Loans	56,612	59,797
Bills	7,178	6,403
<u>Less</u> Deferred revenue	<u>(16)</u>	<u>(15)</u>
Total loans to customers net from deferred revenue	64,801	66,683
<u>Add</u> Accrued interest receivables	<u>221</u>	<u>189</u>
Total loans to customers net from deferred revenue add accrued interest receivables	65,022	66,872
<u>Less</u> Allowance for doubtful accounts		
- BoT's minimum requirement - individual approach	(786)	(780)
- Allowance in excess	<u>(316)</u>	<u>(306)</u>
<b>Total loans to customers and accrued interest receivables, net</b>	<b><u>63,920</u></b>	<b><u>65,786</u></b>

**9.2 Classified by currencies and residencies of debtors**

	<b>2018</b>			<b>2017</b>		
	<b>Domestic</b>	<b>Foreign</b>	<b>Total</b>	<b>Domestic</b>	<b>Foreign</b>	<b>Total</b>
	<b>Million</b>	<b>Million</b>	<b>Million</b>	<b>Million</b>	<b>Million</b>	<b>Million</b>
	<b>Baht</b>	<b>Baht</b>	<b>Baht</b>	<b>Baht</b>	<b>Baht</b>	<b>Baht</b>
Baht	44,839	-	44,839	42,587	-	42,587
US Dollar	16,495	1,447	17,942	19,088	1,856	20,944
Other currencies	1,771	249	2,020	1,837	1,315	3,152
Total*	<u>63,105</u>	<u>1,696</u>	<u>64,801</u>	<u>63,512</u>	<u>3,171</u>	<u>66,683</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

	2018			Total Million Baht
	Pass Million Baht	Doubtful Million Baht	Doubtful of loss Million Baht	
Agriculture and mining	3,199	-	-	3,199
Industrial and commercial	30,990	-	209	31,199
Property and construction	3,136	-	-	3,136
Infrastructure and service	25,803	12	-	25,815
Home mortgages	308	-	-	308
Others	1,144	-	-	1,144
<b>Total*</b>	<b>64,580</b>	<b>12</b>	<b>209</b>	<b>64,801</b>

\* Loans to customers net of deferred revenue

	2017			Total Million Baht
	Pass Million Baht	Special mention Million Baht	Doubtful of loss Million Baht	
Agriculture and mining	1,064	-	-	1,064
Industrial and commercial	35,806	82	211	36,099
Property and construction	1,566	-	-	1,566
Infrastructure and service	26,456	-	-	26,456
Home mortgages	325	-	-	325
Others	1,173	-	-	1,173
<b>Total*</b>	<b>66,390</b>	<b>82</b>	<b>211</b>	<b>66,683</b>

\* Loans to customers net of deferred revenue

9.4 Classified by grade

	2018			Allowance for doubtful accounts Million Baht
	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 as per BoT's minimum requirement				
- Pass	64,801	60,107	1	613
- Doubtful	12	12	100	12
- Doubtful of loss	209	161	100	161
<b>Total</b>	<b>65,022</b>	<b>60,280</b>		<b>786</b>
Allowance in excess				316
<b>Total *</b>				<b>1,102</b>

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

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

9.4 Classified by grade (Cont'd)

	2017			
	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	66,579	63,345	1	640
- Special mention	82	82	2	2
- Doubtful of loss	211	138	100	138
<b>Total</b>	<b>66,872</b>	<b>63,565</b>		<b>780</b>
Allowance in excess				306
<b>Total *</b>				<b>1,086</b>

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

9.5 Non-performing loans

As at 31 December 2018 and 2017 the Branch had non-performing loans gross ("NPLs Gross") (including financial institutions) based on the BoT notification as follows:

	2018	2017
NPLs, gross ( <i>in million Baht</i> )	221	211
Loans used for NPLs ratio calculation <sup>(1)</sup> ( <i>in million Baht</i> )	76,842	113,326
Percentage of total loans <sup>(2)</sup>	0.29	0.19

(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 2018 and 2017 the Branch had non-performing loans net ("NPLs Net") (including financial institutions) based on the BoT notification as follows:

	2018	2017
NPLs, net ( <i>in million Baht</i> )	43	49
Loans used for NPLs ratio calculation <sup>(1)</sup> ( <i>in million Baht</i> )	76,664	113,164
Percentage of total loans <sup>(2)</sup>	0.06	0.04

(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 2018, allowance for doubtful accounts of Baht 178 million (2017: Baht 162 million) have been provided against the Branch's non-performing loans being those classified as substandard, doubtful and doubtful of loss.

# 10 Allowance for doubtful accounts

Movements in the allowance for doubtful accounts for loans to customers during the year ended 31 December 2018 and 2017 consisted of:

	2018					
	Pass Million Baht	Special mention Million Baht	Substandard Million Baht	Doubtful Million Baht	Doubtful of loss Million Baht	Total Million Baht
Beginning balance	922	2	-	-	162	1,086
Doubtful accounts charge	2	(2)	-	17	(1)	16
Ending balance	924	-	-	17	161	1,102

	2017					
	Pass Million Baht	Special mention Million Baht	Substandard Million Baht	Doubtful Million Baht	Doubtful of loss Million Baht	Total Million Baht
Beginning balance	928	-	-	-	162	1,090
Doubtful accounts charge	(6)	2	-	-	-	(4)
Ending balance	922	2	-	-	162	1,086

# 11 Leasehold right for land and buildings, net

	2018 Million Baht	2017 Million Baht
Cost	909	909
Less Accumulated amortisation	(523)	(509)
Less Loss on impairment	(269)	(269)
Total	117	131

# 12 Deferred tax assets, net

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

	2018 Million Baht	2017 Million Baht
Deferred tax asset to be recovered within 12 months	52	63
Deferred tax asset to be recovered after more than 12 months	138	143
Deferred tax liability to be settled within 12 months	-	(87)
Deferred tax liability to be settled after more than 12 months	(36)	(35)
Deferred tax asset, net	154	84

12 Deferred tax assets, net (Cont'd)

Movements in deferred tax assets and liabilities during the year ended 31 December 2018 were as follows:

	(Charged)/ credited to			
	At	Profit	Other	At
	1 January	or loss	comprehensive	31 December
	2018	(Note 33)	income	2018
	Million Baht	Million Baht	(Note 33)	Million Baht
			Million Baht	
<b>Deferred tax assets</b>				
Allowance for doubtful accounts and provision for contingent liabilities	10	(4)	-	6
Provision for impairment	33	(4)	-	29
Others	163	(8)	-	155
<b>Total</b>	206	(16)	-	190
<b>Deferred tax liabilities</b>				
Investments	47	(39)	(8)	-
Borrowings and financial instruments	35	1	-	36
Others	40	(40)	-	-
<b>Total</b>	122	(78)	(8)	36
<b>Net</b>	84	62	8	154

Movements in deferred tax assets and liabilities during the year ended 31 December 2017 were as follows:

	(Charged)/ credited to			
	At	Profit	Other	At
	1 January	or loss	comprehensive	31 December
	2018	(Note 33)	income	2018
	Million Baht	Million Baht	(Note 33)	Million Baht
			Million Baht	
<b>Deferred tax assets</b>				
Investments	41	(40)	(1)	-
Allowance for doubtful accounts and provision for contingent liabilities	10	-	-	10
Provision for impairment	36	(3)	-	33
Others	124	41	(2)	163
<b>Total</b>	211	(2)	(3)	206
<b>Deferred tax liabilities</b>				
Investments	-	39	8	47
Borrowings and financial instruments	45	(10)	-	35
Others	1	39	-	40
<b>Total</b>	46	68	8	122
<b>Net</b>	165	(70)	(11)	84

**13 Other assets**

	<b>2018</b> <b>Million Baht</b>	<b>2017</b> <b>Million Baht</b>
Accrued income receivable	200	250
Margins	3,296	2,519
Others	90	79
<b>Total</b>	<b>3,586</b>	<b>2,848</b>

**14 Classified assets**

As at 31 December 2018 and 2017, 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:

	<b>2018</b>			
	<b>Investments</b>	<b>Interbank</b>	<b>Loans to</b>	<b>Total</b>
	<b>Million Baht</b>	<b>and money</b>	<b>customers</b>	<b>Million Baht</b>
		<b>market</b>	<b>and accrued</b>	
		<b>Million Baht</b>	<b>interest</b>	
			<b>receivables</b>	
			<b>Million Baht</b>	
Pass	76,802	12,049	64,801	153,652
Doubtful	-	-	12	12
Doubtful of loss	-	-	209	209
<b>Total</b>	<b>76,802</b>	<b>12,049</b>	<b>65,022</b>	<b>153,873</b>

	<b>2017</b>			
	<b>Investments</b>	<b>Interbank</b>	<b>Loans to</b>	<b>Total</b>
	<b>Million Baht</b>	<b>and money</b>	<b>customers</b>	<b>Million Baht</b>
		<b>market</b>	<b>and accrued</b>	
		<b>Million Baht</b>	<b>interest</b>	
			<b>receivables</b>	
			<b>Million Baht</b>	
Pass	69,867	46,613	66,579	183,059
Special mention	-	42	82	124
Doubtful of loss	-	-	211	211
<b>Total</b>	<b>69,867</b>	<b>46,655</b>	<b>66,872</b>	<b>183,394</b>

Investments are stated at fair value. As at 31 December 2018, investments classified as doubtful of loss according to the BoT's definition represented unrealised loss on revaluation of Baht 242 million (2017: Baht 142 million).

## 15 Deposits

### 15.1 Classified by type of deposits

	2018 Million Baht	2017 Million Baht
Current	24,518	32,997
Saving	54,772	67,831
Term		
- Less than 6 months	6,126	15,352
- More than 6 months but less than 1 year	2,802	160
<b>Total</b>	<b>88,218</b>	<b>116,340</b>

### 15.2 Classified by currencies and residencies of depositors:

	2018			2017		
	Domestic Million Baht	Foreign Million Baht	Total Million Baht	Domestic Million Baht	Foreign Million Baht	Total Million Baht
Baht	70,407	1,200	71,607	88,843	1,202	90,045
US Dollar	14,530	1,009	15,539	25,146	516	25,662
Other currencies	1,071	1	1,072	615	18	633
<b>Total</b>	<b>86,008</b>	<b>2,210</b>	<b>88,218</b>	<b>114,604</b>	<b>1,736</b>	<b>116,340</b>

## 16 Interbank and money market items (liabilities)

	2018			2017		
	At call Million Baht	Term Million Baht	Total Million Baht	At call Million Baht	Term Million Baht	Total Million Baht
<b>Domestic</b>						
Commercial banks	1	8,800	8,801	1	50	51
Finance, securities and credit foncier companies	2,747	-	2,747	2,645	-	2,645
Other financial institutions	2,052	665	2,717	1,448	1,060	2,508
<b>Total domestic</b>	<b>4,800</b>	<b>9,465</b>	<b>14,265</b>	<b>4,094</b>	<b>1,110</b>	<b>5,204</b>
<b>Foreign</b>						
Baht	5,213	-	5,213	4,626	-	4,626
US Dollar	1,005	-	1,005	-	-	-
Other currencies	498	-	498	26	-	26
<b>Total foreign</b>	<b>6,716</b>	<b>-</b>	<b>6,716</b>	<b>4,652</b>	<b>-</b>	<b>4,652</b>
<b>Total domestic and foreign</b>	<b>11,516</b>	<b>9,465</b>	<b>20,981</b>	<b>8,746</b>	<b>1,110</b>	<b>9,856</b>

**17 Debt issued and borrowings**

	<b>2018</b>	<b>2017</b>
	<b>Million Baht</b>	<b>Million Baht</b>
Floating rate notes	9,145	9,818
<b>Total</b>	<b>9,145</b>	<b>9,818</b>

As at 31 December 2018, all borrowings were in Thai Baht with interest rates between 1.33% - 1.80% per annum (2017: 0.31% - 1.84% per annum).

**18 Employee benefit obligations**

Statement of financial position obligations for

	<b>2018</b>	<b>2017</b>
	<b>Million Baht</b>	<b>Million Baht</b>
Post employment benefits		
- Legal severance payment plan and gratuity plan	260	238

	<b>2018</b>	<b>2017</b>
	<b>Million Baht</b>	<b>Million Baht</b>
<b>Year ended 31 December</b>		
<b>Statement of comprehensive income:</b>		
<b><i>Recognised in profit or loss</i></b>		
Post employment benefits		
- Legal severance payment plan and gratuity plan	26	27
<b><i>Recognised in other comprehensive income</i></b>		
Actuarial gains recognised during the year	-	(7)
<b>Total</b>	<b>26</b>	<b>20</b>

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

*Legal severance payment plan*

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

*Gratuity plan*

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

**18 Employee benefit obligations (Cont'd)**

The statement of financial position obligations were determined as follows:

	<b>2018</b> <b>Million Baht</b>	<b>2017</b> <b>Million Baht</b>
Present value of unfunded obligations	260	238
<b>Statement of financial position obligations</b>	<b>260</b>	<b>238</b>

Movement in the present value of the defined benefit obligations:

	<b>2018</b> <b>Million Baht</b>	<b>2017</b> <b>Million Baht</b>
At 1 January	238	225
Expense recognised in profit or loss		
Current service costs	20	20
Interest cost on obligation	6	7
Benefits paid during the year	(4)	(7)
Actuarial gains in other comprehensive income	-	(7)
<b>At 31 December</b>	<b>260</b>	<b>238</b>

The expense is recognised in profit or loss:

	<b>2018</b> <b>Million Baht</b>	<b>2017</b> <b>Million Baht</b>
Other operating expenses		
- Employee expenses	26	27
<b>Total</b>	<b>26</b>	<b>27</b>

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

	<b>2018</b> <b>Million Baht</b>	<b>2017</b> <b>Million Baht</b>
At 1 January	45	50
Recognised during the year	-	(5)
<b>At 31 December</b>	<b>45</b>	<b>45</b>

Principal actuarial assumptions at the reporting date:

	<b>2018</b> <b>(%)</b>	<b>2017</b> <b>(%)</b>
Discount rate	2.6	2.6
Future average salary increases	3	3
Retirement mortality rate retirement	Thai Mortality Ordinary Table 2017	Thai Mortality Ordinary Table 2017

**18 Employee benefit obligations (Cont'd)**

As at 31 December 2018 and 2017, the impact on defined benefit obligations of key assumption changes are summarised as follows:

	<b>2018</b> <b>Million Baht</b>	<b>2017</b> <b>Million Baht</b>
Discount rate		
1.0% decrease	18	17
1.0% increase	(16)	(15)
Expected rate of salary increase		
1.0% decrease	(17)	(15)
1.0% increase	18	17
Turnover rate		
10% decrease in likelihood of turnover	7	6
10% increase in likelihood of turnover	(7)	(6)

Maturity analysis of benefits expected to be paid

	<b>2018</b> <b>Million Baht</b>	<b>2017</b> <b>Million Baht</b>
Benefits expected to be paid within 12 months	20	4
Benefits expected to be paid between 1 and 2 years	23	20
Benefits expected to be paid between 2 and 5 years	91	70
Benefits expected to be paid in more than 5 years	148	192

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**

	<b>2018</b> <b>Million Baht</b>	<b>2017</b> <b>Million Baht</b>
At 1 January	106	152
Provision used/ released	(42)	(46)
<b>At 31 December</b>	<b>64</b>	<b>106</b>

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

**20 Other liabilities**

	2018 Million Baht	2017 Million Baht
Accrued interest expense	53	40
Accrued expenses	469	473
Income tax payable	211	200
Marginal deposit	1,519	1,638
Others	721	1,524
<b>Total</b>	<b>2,973</b>	<b>3,875</b>

**21 Commitments and contingent liabilities**

	2018			2017		
	Baht Million Baht	Foreign currency Million Baht	Total Million Baht	Baht Million Baht	Foreign currency Million Baht	Total Million Baht
Guarantees of loans	9	317	326	1	588	589
Other guarantees	18,109	9,186	27,295	24,382	14,082	38,464
Liabilities under unmatured import bills	47	2,565	2,612	-	2,011	2,011
Letters of credit	-	990	990	10	2,103	2,113
Unused credit lines of overdrafts and credit facilities	57,834	19,720	77,554	53,134	14,262	67,396
<b>Total</b>	<b>75,999</b>	<b>32,778</b>	<b>108,777</b>	<b>77,527</b>	<b>33,046</b>	<b>110,573</b>

As at 31 December 2018, the Branch has received claims in respect of allegation of misconduct to transfer fund and closure account in respect of former retail customers without comply with account mandate of totalling Baht 592 million (2017 : Baht 369 million) against the Branch. 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	2018 Million Baht
Building and service lease agreements	1 January 2019 - 30 June 2019	1
Vehicle lease agreements	1 January 2019 - 31 October 2020	8
Equipment lease agreement	1 January 2019 - 31 March 2022	10
		<b>19</b>
Type of lease agreement	Remaining period	2017 Million Baht
Building and service lease agreements	1 January 2018 - 30 June 2019	3
Vehicle lease agreements	1 January 2018 - 31 October 2020	14
Equipment lease agreement	1 January 2018 - 31 March 2022	22
		<b>39</b>

## 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:

<b>Name of entities/Personnel</b>	<b>Country of incorporation</b>	<b>Nature of relationships</b>
Key management personnel	Thailand	Persons having authority and responsibility for planning, directing and controlling the activities of the Branch, directly or indirectly including any directs (whether executive or otherwise) of the Branch. The Branch's key management personnel consisted of: <ul style="list-style-type: none"> <li>- Chief Executive Officer</li> <li>- Chief Financial Officer</li> <li>- Chief Operating Officer</li> <li>- Chief Risk Officer</li> <li>- Head of Global Market</li> <li>- Head of Global Banking</li> <li>- Head of Commercial Banking</li> <li>- Head of Regulatory Compliance</li> <li>- Head of Financial Crime Compliance</li> <li>- Head of Legal</li> <li>- Head of Communications</li> <li>- Head of Human Resources</li> </ul>
HSBC Holdings Plc.	England	Ultimate parent company of the Head Office
The Hongkong and Shanghai Banking Corporation Limited (HBAP)	Hong Kong	Head Office and other branches
<b>Other HSBC Group entities</b>		
HSBC Bank Plc.	England	HSBC Holdings Plc's subsidiary
HSBC Bank USA, N.A.	United States	HSBC Holdings Plc's subsidiary
HSBC Private Banking Holdings (Suisse) S.A.	Switzerland	HSBC Holdings Plc's subsidiary
HSBC Bank Canada	Canada	HSBC Holdings Plc's subsidiary
HSBC France	France	HSBC Holdings Plc's subsidiary
HSBC Bank Australia Limited	Australia	HBAP's subsidiary
HSBC Bank Malaysia Berhad	Malaysia	HBAP's subsidiary
Hang Seng Bank Limited	Hong Kong	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 year ended 31 December 2018 and 2017 with the related parties were as follows:

	2018 Million Baht	2017 Million Baht
<b>HBAP</b>		
Interest income on inter-office lending	76	15
Fee and service income	89	64
Interest expense on inter-office borrowing	413	176
Fee and expenses	78	56
Head office expenses	451	488
Other expenses	16	19
<b>Other HSBC Group entities</b>		
Interest income	6	1
Fee and commission income	75	70
Interest expense	3	1
Fee and commission expenses	96	35
Other operating income	-	1
Other expenses	57	57

Significant balances with related parties as at 31 December 2018 and 2017 consisted of:

	2018 Million Baht	2017 Million Baht
<b>Interbank and money market items (assets)</b>		
<b>HSBC Group entities</b>		
HSBC Bank Plc.	4,439	1,749
HSBC Bank Australia Limited	52	8
HSBC Bank USA, N.A.	-	60
HSBC Bank Canada	-	2
Others	3	4
<b>Total</b>	<b>4,494</b>	<b>1,823</b>
<b>Interbank and money market items (liabilities)</b>		
<b>HSBC Group entities</b>		
HSBC Bank USA, N.A.	1,127	32
HSBC France	494	-
HSBC Bank Plc.	58	307
HSBC Bank Malaysia Berhad	51	14
Hang Seng Bank Limited	44	73
HSBC Bank Australia Limited	21	9
HSBC Private Banking Holdings (Suisse) S.A.	7	21
Others	140	153
<b>Total</b>	<b>1,942</b>	<b>609</b>

## 22 Related parties (Cont'd)

Significant balances with related parties as at 31 December 2018 and 2017 consisted of: (Cont'd)

	2018 Million Baht	2017 Million Baht
<b>Net balance of inter-office accounts with head office and other branches of the same juristic person</b>		
<b>HBAP</b>		
Nostro accounts	(1,013)	(16)
Vostro accounts	504	474
Lending	(3,180)	-
Borrowings	11,357	18,203
Accrued interest receivables	(1)	-
Accrued interest expenses	3	10
Accrued expenses	454	471
Other receivables	(60)	(28)
Other payables	24	12
<b>Total</b>	<b>8,088</b>	<b>19,126</b>

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

### **Significant agreements with related parties**

#### *(a) Service agreement*

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

#### *(b) Outsourcing services*

The Branch entered into service agreements with related parties for certain banking operation, financial processing activities and information technology support.

## 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.

	2018 Million Baht	2017 Million Baht
Short-term employee benefits	145	150
Post-employment benefits	7	6
Share-based payment	17	20
<b>Total</b>	<b>169</b>	<b>176</b>

## 24 Share-based payments

### Income statement charge

	2018 Million Baht	2017 Million Baht
<b>Equity-settled share-based payments</b>		
Restricted share awards	6	(1)
ShareMatch	1	1
<b>Total</b>	<b>7</b>	<b>-</b>

### HSBC Share Awards

Award	Policy	Purpose
Restricted share awards	<ul style="list-style-type: none"> <li>An assessment of performance over the relevant period ending on 31 December is used to determine the amount of the award to be granted.</li> <li>Deferred awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date.</li> <li>Deferred share awards generally vest over a period of three years.</li> <li>Vested shares may be subject to a retention requirement (restriction) post-vesting.</li> <li>Awards granted from 2010 onwards are subject to a malus provision prior to vesting.</li> <li>Awards granted to Material Risk Takers from 2015 onwards are subject to clawback post vesting.</li> </ul>	<ul style="list-style-type: none"> <li>To drive and reward performance consistent with strategy and align to shareholder interests.</li> <li>Deferral provides an incentive for a longer term commitment and the ability to apply malus.</li> </ul>
International Employee Share Purchase Plan ('ShareMatch')	<ul style="list-style-type: none"> <li>Shares are purchased in the market each quarter up to a maximum value of £750 or the equivalent in local currency.</li> <li>Matching awards are added at a ratio of one free share for every three purchased.</li> <li>Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.</li> </ul>	<ul style="list-style-type: none"> <li>To align the interests of all employees with the creation of shareholder value.</li> </ul>

### Calculation of fair values

The fair value of a share award is based on the share price at the date of the grant.

### Movement on HSBC share awards

	2018 Number	2017 Number
Outstanding at 1 January	118,963	166,873
Additions during the year	17,030	49,491
Released during the year	(64,613)	(94,549)
Forfeited during the year	-	(2,852)
<b>Outstanding at 31 December</b>	<b>71,380</b>	<b>118,963</b>
Weighted average fair value of awards granted (Baht)	284.11	262.15

**25 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.

**26 Interest income**

	<b>2018</b> <b>Million Baht</b>	<b>2017</b> <b>Million Baht</b>
Interbank and money market items	618	778
Investments and trading transactions	748	500
Investments in debt securities	731	763
Loans	1,705	1,562
<b>Total interest income</b>	<b>3,802</b>	<b>3,603</b>

**27 Interest expense**

	<b>2018</b> <b>Million Baht</b>	<b>2017</b> <b>Million Baht</b>
Deposits	414	366
Interbank and money market items	506	378
Contribution to Deposit Protection Agency	469	455
Borrowings	296	318
<b>Total interest expense</b>	<b>1,685</b>	<b>1,517</b>

**28 Net fees and service income**

	<b>2018</b> <b>Million Baht</b>	<b>2017</b> <b>Million Baht</b>
Fees and service income		
- Acceptances, aval and guarantees	124	118
- Remittances	280	280
- Underwriting, management and consulting	57	36
- Custody	359	368
- Others	126	106
<b>Total</b>	<b>946</b>	<b>908</b>
Fees and service expenses		
- Remittances	56	53
- Others	157	145
<b>Total</b>	<b>213</b>	<b>198</b>
<b>Net</b>	<b>733</b>	<b>710</b>

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

	<b>2018</b> <b>Million Baht</b>	<b>2017</b> <b>Million Baht</b>
Gain on trading and foreign exchange transactions		
- Foreign currencies and foreign currency related derivatives	2,990	1,953
- Interest rate related derivatives	(470)	(859)
- Debt instruments	119	674
<b>Total</b>	<b>2,639</b>	<b>1,768</b>

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

	<b>2018</b> <b>Million Baht</b>	<b>2017</b> <b>Million Baht</b>
Provision for doubtful accounts (Reversal)		
- Transactions between interbank and money markets	(3)	4
- Loans to customers	16	(4)
<b>Total</b>	<b>13</b>	<b>-</b>

**31 Employee expenses**

	<b>2018</b> <b>Million Baht</b>	<b>2017</b> <b>Million Baht</b>
Wages, salaries and bonus	1,017	996
Post-employment benefits - defined benefit plans	26	27
Post-employment benefits - defined contribution plans	53	56
Others	77	135
<b>Total</b>	<b>1,173</b>	<b>1,214</b>

The Branch has established contributory provident funds for their employees. Memberships of the funds are on a voluntary basis. Contributions are made monthly by the employees at rates ranging from 3% to 15% 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**

	<b>2018</b> <b>Million Baht</b>	<b>2017</b> <b>Million Baht</b>
Expenses allocated from Head Office	289	274
Others	252	263
<b>Total</b>	<b>541</b>	<b>537</b>

### 33 Income tax expense

#### *Income tax expense recognised in profit or loss*

	Note	2018 Million Baht	2017 Million Baht
<b>Current tax expense</b>			
Current year		707	404
(Over) under provided in the prior year		(4)	27
		<u>703</u>	<u>431</u>
<b>Deferred tax expense</b>			
Movements in temporary differences	12	(62)	70
<b>Total income tax expense</b>		<u>641</u>	<u>501</u>

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

	2018			2017		
	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	(39)	8	(31)	47	(9)	38
Defined benefit plans actuarial losses	-	-	-	7	(2)	5
<b>Total</b>	<u>(39)</u>	<u>8</u>	<u>(31)</u>	<u>54</u>	<u>(11)</u>	<u>43</u>

#### *Reconciliation of effective tax rate*

	2018		2017	
	Rate (%)	Million Baht	Rate (%)	Million Baht
Profit before income tax expense		3,382		2,395
Income tax using the Thai corporation tax rate	20.0	676	20.0	479
Expenses not deductible for tax purposes	0.1	5	0.3	6
(Over) under provided in the prior year	(1.2)	(40)	0.6	16
<b>Total</b>	<u>18.9</u>	<u>641</u>	<u>20.9</u>	<u>501</u>

#### *Income tax reduction*

The Branch has applied the reduced tax rate of 20% in measuring deferred tax assets and liabilities as at 31 December 2018 and 2017 in accordance with the clarification issued by the FAP in 2012.