

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

FINANCIAL STATEMENTS

31 DECEMBER 2019



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 2019, 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 2019;
- 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 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 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 scepticism 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 blue ink, appearing to read 'Sinsiri'.

Sinsiri Thangsombat

Certified Public Accountant (Thailand) No. 7352

Bangkok

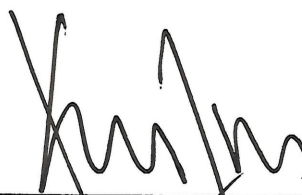
14 February 2020

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Statement of Financial Position
As at 31 December 2019

		2019	2018
		Thousand	Thousand
	Notes	Baht	Baht
Assets			
Cash		68,642	152,673
Interbank and money market items, net	6, 22	31,253,135	17,001,724
Derivative assets	7	35,361,814	24,541,868
Investments, net	8	80,131,224	76,802,473
Loans to customers and accrued interest receivables, net	9		
Loans to customers		66,403,317	64,816,854
Accrued interest receivables		233,430	220,469
Total loans to customers and accrued interest receivables		66,636,747	65,037,323
<u>Less</u> Deferred revenue		(25,126)	(15,720)
<u>Less</u> Allowance for doubtful accounts	9.4, 10	(1,035,605)	(1,101,650)
Total loans to customers and accrued interest receivables, net	9.1	65,576,016	63,919,953
Leasehold improvements and equipment, net		41,657	27,053
Intangible asset, net		201	253
Right-of-use assets, net	11	106,450	116,602
Deferred tax assets, net	12	-	154,299
Other assets	13	7,864,430	3,585,538
Total assets		<u>220,403,569</u>	<u>186,302,436</u>



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.

Statement of Financial Position (Cont'd)
As at 31 December 2019

		2019	2018
		Thousand	Thousand
	Notes	Baht	Baht
Liabilities and accounts with head office and other branches of the same juristic person			
Liabilities			
Deposits	15	109,695,799	88,217,662
Interbank and money market items	16, 22	24,577,159	20,981,379
Liabilities payable on demand		1,285,850	1,782,781
Derivative liabilities	7	40,961,993	27,824,303
Debt issued and borrowings	17	11,602,629	9,144,715
Employee benefit obligations	18	327,510	260,544
Provisions	19	45,370	64,135
Deferred tax liabilities, net	12	326,320	-
Other liabilities	20	3,768,227	2,973,483
Total liabilities		192,590,857	151,249,002
Accounts with head office and other branches of the same juristic person			
Net funds brought in to maintain assets under the Act	5	20,100,000	20,100,000
Net balance of inter-office accounts with head office and other branches of the same juristic person	22	1,473,610	8,088,266
Other components of accounts with head office and other branches of the same juristic person		297,405	59,941
Retained earnings		5,941,697	6,805,227
Total accounts with head office and other branches of the same juristic person		27,812,712	35,053,434
Total liabilities and accounts with head office and other branches of the same juristic person		220,403,569	186,302,436

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 2019

		2019	2018
		Thousand	Thousand
	Notes	Baht	Baht
Interest income	22, 26	4,043,215	3,802,391
Interest expenses	22, 27	1,710,976	1,685,161
Net interest income		2,332,239	2,117,230
Fees and service income		992,721	946,426
Fees and service expenses		218,696	213,064
Net fees and service income	22, 28	774,025	733,362
Net gain on trading and foreign exchange transactions	29	2,471,492	2,638,560
Other operating income		286	100
Total operating income		5,578,042	5,489,252
Other operating expenses			
Employee expenses	23, 31	1,328,928	1,172,812
Premises and equipment expenses		372,185	298,961
Taxes and duties		88,819	81,761
Other expenses	22, 32	634,901	540,876
Total other operating expenses		2,424,833	2,094,410
(Reversal) Bad debts, doubtful accounts expense and impairment loss	30	(15,513)	12,414
Operating profit before income tax expenses		3,168,722	3,382,428
Income tax expenses	33	654,405	640,737
Net profit for the year		2,514,317	2,741,691
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Gains (losses) on remeasurement of available-for-sale investments		285,553	(39,559)
Other reserves		2,682	6,279
Income taxes relating to items that will be reclassified subsequently to profit or loss	33	(57,111)	7,912
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains	18	7,925	-
Income taxes on items that will not be reclassified subsequently to profit or loss	33	(1,585)	-
Other comprehensive income (losses) for the year, net of income tax		237,464	(25,368)
Total comprehensive income for the year		2,751,781	2,716,323

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 2019

	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		Retained earnings Thousand Baht	Total Thousand Baht
			Gains (losses) on remeasurement of available-for-sale investments Thousand Baht	Other reserves Thousand Baht		
Balance at 1 January 2018	20,100,000	19,126,269	34,014	51,295	4,063,536	43,375,114
Comprehensive income for the year						
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)
Total comprehensive income for the year	-	-	(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)
Balance at 31 December 2018	<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>
Balance at 1 January 2019	20,100,000	8,088,266	2,367	57,574	6,805,227	35,053,434
Comprehensive income for the year						
Net profit	-	-	-	-	2,514,317	2,514,317
Other comprehensive income						
Gains on remeasurement of available-for-sale investments, net of income tax	-	-	228,442	-	-	228,442
Actuarial gain, net of income tax	-	-	-	6,340	-	6,340
Other reserves	-	-	-	2,682	-	2,682
Total other comprehensive income	-	-	228,442	9,022	-	237,464
Total comprehensive income for the year	-	-	228,442	9,022	2,514,317	2,751,781
Movement in balance of inter-office accounts with head office and other branches of the same juristic person	-	(6,614,656)	-	-	-	(6,614,656)
Profit remittance to head office	-	-	-	-	(3,377,847)	(3,377,847)
Balance at 31 December 2019	<u>20,100,000</u>	<u>1,473,610</u>	<u>230,809</u>	<u>66,596</u>	<u>5,941,697</u>	<u>27,812,712</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 2019

	2019	2018
	Thousand	Thousand
	Baht	Baht
Cash flows from operating activities		
Operating profit before income tax expenses	3,168,722	3,382,428
Adjustments to reconcile profit from operations before income tax expenses to cash received (paid) from operating activities		
Depreciation and amortisation	29,769	25,959
(Reversal) bad debt, doubtful accounts expense and impairment loss	(15,513)	12,414
Unrealised (gains) losses on revaluation of trading investment	(1,957,534)	194,200
Gains on disposal of equipment	(280)	(91)
Employee benefit expenses	88,353	26,212
Unrealised (gains) losses on change in foreign exchange	(59,583)	138,169
Unrealised losses on derivative assets and liabilities	2,317,744	996,819
Provisions for contingent liabilities (reversal)	674	(22,076)
Decrease in other reserves	(46)	(1,623)
Net interest income	(2,332,239)	(2,117,230)
Proceeds from interest income	4,184,987	3,556,706
Interest paid	(1,697,627)	(1,672,900)
Income tax paid	(360,437)	(692,081)
Net profit from operations before change in operating assets and liabilities	3,366,990	3,826,906
Decrease (increase) in operating assets		
Interbank and money market items	(14,372,044)	32,401,786
Trading investment	(1,399,493)	382,616
Loans to customers	(2,181,545)	1,800,326
Other assets	(4,304,805)	(786,839)
Increase (decrease) in operating liabilities		
Deposits	22,185,685	(28,040,681)
Interbank and money market items	3,604,275	11,126,055
Liabilities payable on demand	(496,931)	(559,703)
Debt issued and borrowings	2,476,633	(672,975)
Employee benefit obligations	(13,462)	(3,949)
Provisions	(19,438)	(19,438)
Other liabilities	908,037	(916,868)
Net cash provided by operating activities	9,753,902	18,537,236

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 2019

	2019	2018
	Thousand	Thousand
	Baht	Baht
Cash flows from investing activities		
Purchases of available-for-sale investments	(55,488,585)	(58,096,529)
Proceeds from maturity of available-for-sale investments	55,673,000	50,813,000
Purchases of equipment	(25,389)	(16,457)
Proceeds from sales of equipment	280	91
Net cash provided by (used in) investing activities	159,306	(7,299,895)
Cash flows from financing activities		
Payment of lease liabilities	(4,736)	-
Profit remittance to head office	(3,377,847)	-
Decrease in net balance of inter-office accounts with head office and other branches of the same juristic person	(6,614,656)	(11,154,722)
Net cash used in financing activities	(9,997,239)	(11,154,722)
Net (decrease) increase in cash and cash equivalents	(84,031)	82,619
Cash and cash equivalents at the beginning of the year	152,673	70,054
Cash and cash equivalents at the end of the year	68,642	152,673

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 2020.

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 New and revised financial reporting standards that are relevant and have significant impacts to the Branch

2.2.1 The Branch has applied the new and revised financial reporting standards which are effective for accounting period beginning or after 1 January 2019

a) Thai Financial Reporting Standard no.15, Revenue from contracts with customers

The standard provides principle under five-step process for revenue recognition from contracts with customers, which is based on the principle that revenue is recognised when control of a good or service transfers to a customer at an amount that the Branch expects to be entitled to in exchange for those goods or services. It replaces the principles of transferring the significant risks and rewards of ownership of the goods or services to the buyer in accordance with Thai Accounting Standard no.18 (TAS 18), Revenue and its related interpretations.

The Branch has adopted the new TFRS 15, Revenue from contracts with customers from 1 January 2019. The effect from this change in accounting policy does not have significant impact to the comparative financial statements. The Branch did not apply practical expedient relates to completed contracts and contract modifications as allowed by TFRS 15.

b) Thai Financial Reporting Standard no.2 (revised 2018), *Share-based payment*

The revisions made to TFRS 2 clarify:

- the measurement basis for cash-settled share-based payments; and
- the accounting for modifications that change an award from cash-settled to equity-settled.

They also introduce an exception to the classification principles in TFRS 2, 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 amount will be treated as if it is equity-settled. Previously the tax portion was accounted for as cash-settled.

c) Thai Financial Reporting Interpretation no. 22, Foreign currency transactions and advance consideration

TFRIC 22 clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts.

2 Significant accounting policies (Cont'd)

2.2 New and revised financial reporting standards that are relevant and have significant impacts to the Branch (Cont'd)

2.2.2 New financial reporting standard which is effective for accounting period beginning or after 1 January 2020 which the Branch has early adopted the standard

Thai Financial Reporting Standard no.16, Leases

Thai Financial Reporting Standard no.16, Leases results in almost all leases where the entity is a lessee being recognised on the balance sheet as the distinction between operating and finance lease is removed. An asset (the right to use the leased item) and liability to pay rentals are recognised, with exception on short-term and low-value leases.

On 1 January 2019, the Branch adopted the requirements of Thai Financial Reporting Standard no.16 (TFRS 16) by recognising the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings at that date (modified retrospective approach). Comparatives were not restated. The adoption of the standard increased assets by Baht 8 million and increased financial liabilities by the same amount with no effect on net assets or retained earnings.

On adoption of TFRS 16, the Branch recognised lease liabilities in relation to leases that had previously been classified as 'operating leases' in accordance with Thai Accounting Standard no.17, Leases. These liabilities were recognised in 'other liabilities' and were measured at the present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate at 1 January 2019. The associated right-of-use ('ROU') assets were recognised in 'Right-of-use assets' and were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments or provisions for onerous leases recognised on the balance sheet at 31 December 2018. In addition, the following practical expedients permitted by the standard were applied:

- reliance was placed on previous assessments on whether leases are onerous;
- operating leases with a remaining lease term of less than 12 months as at 1 January 2019 were treated as short-term leases; and
- initial direct costs were not included in the measurement of ROU assets for leases previously accounted for as operating leases.

2 Significant accounting policies (Cont'd)

2.2 New and revised financial reporting standards that are relevant and have significant impacts to the Branch (Cont'd)

2.2.3 New and revised financial reporting standards which are effective for accounting period beginning or after 1 January 2020 which the Branch has not early adopted the standard

a) Financial instruments

The new financial standards related to financial instruments are:

TAS 32	Financial Instruments: Presentation
TFRS 7	Financial Instruments: Disclosures
TFRS 9	Financial Instruments

These new standards address the classification, measurement, derecognition of financial assets and financial liabilities, impairment of financial assets, hedge accounting, and presentation and disclosure of financial instruments.

On 1 January 2020, the Branch will apply the financial reporting standards for financial instrument in its financial statements by applying modified retrospective approach. From the preliminary assessment, the management expect that the Branch will be significantly affected on the following area.

Impairment

As of 1 January 2020, the existing provision is in excess the impairment losses of Baht 900 million. The excess amount from the transition will be released over five years on straight line basis starting on 1 January 2020 according to the BoT's notification.

b) Other new and revised standards

The new and revised standards that will have significant impact on the Branch are:

TAS 12	Income tax
TAS 19	Employee benefits
TFRS 9	Financial instruments
TFRIC 23	Uncertainty over income tax treatments

Amendment to TAS 12, Income tax - clarified that the income tax consequences of dividends of financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.

2 Significant accounting policies (Cont'd)

2.2 New and revised financial reporting standards that are relevant and have significant impacts to the Branch (Cont'd)

2.2.3 New and revised financial reporting standards which are effective for accounting period beginning or after 1 January 2020 which the Branch has not early adopted the standard (Cont'd)

b) Other new and revised standards (Cont'd)

Amendment to TAS 19, Employee benefits (plan amendment, curtailment or settlement) - clarified accounting for defined benefit plan amendments, curtailments and settlements that the updated assumptions on the date of change are applied to determine current service cost and net interest for the remainder of the reporting period after the plan amendment, curtailment or settlement.

Amendment to TFRS 9, Financial instruments (prepayment features with negative compensation) - enabling entities to measure certain prepayable financial assets with negative compensation at amortised cost instead of fair value through profit or loss. These assets include some loan and debt securities. To qualify for amortised cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect' business model.

TFRIC 23, Uncertainty over income tax treatments - explained how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored.
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment.
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

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 Significant accounting policies (Cont'd)

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.

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 Significant accounting policies (Cont'd)

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.

2.8 Restructured loans

The Branch classified restructured loans as pass 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 Significant accounting policies (Cont'd)

2.9 Leasehold improvements and equipment

All 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 Right-of-use assets

Right-of-use assets 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.

Right-of-use assets for vehicles are initially measured at the amount equal to the lease liability. The depreciation is charged to profit or loss on a straight-line basis over the lease period of 3 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.

2.12 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.

2 Significant accounting policies (Cont'd)

2.12 Current and deferred income taxes (Cont'd)

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.

2.13 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.

2 Significant accounting policies (Cont'd)

2.13 Financial instruments (Cont'd)

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.

2.14 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.

2 Significant accounting policies (Cont'd)

2.14 Employee benefits (Cont'd)

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.

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.

2.15 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 Significant accounting policies (Cont'd)

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

The Branch recognises fees earned on transaction-based arrangements at a point in time when the Branch have fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement.

Non-interest expenses are recognised on an accrual basis.

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.

3 Financial risk management (Cont'd)

3.1 Credit risk (Cont'd)

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.

3.2 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Branch's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Branch faces three major types of market risk namely interest rate risk, foreign exchange rate risk and equity price risk.

(a) Interest rate risk

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

As at 31 December 2019, significant financial assets and liabilities classified by type of interest rate were as follows:

	2019			
	Floating interest rate Million Baht	Fixed interest rate Million Baht	Non - interest bearing Million Baht	Total Million Baht
Financial assets				
Cash	-	-	69	69
Interbank and money market items, net	2	28,746	2,505	31,253
Investments, net	1,000	79,131	-	80,131
Loans to customers ⁽¹⁾	24,689	41,430	492	66,611
Other assets	7,449	-	203	7,652
Total financial assets	33,140	149,307	3,269	185,716
Financial liabilities				
Deposits	75,279	20,455	13,962	109,696
Interbank and money market items	5,222	12,570	6,785	24,577
Liabilities payable on demand	-	-	1,286	1,286
Debt issued and borrowings	8,021	3,582	-	11,603
Other liabilities	2,182	-	254	2,436
Total financial liabilities	90,704	36,607	22,287	149,598

⁽¹⁾ 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 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
Financial assets				
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 ⁽¹⁾	28,328	36,231	463	65,022
Other assets	3,296	-	200	3,496
Total financial assets	32,625	124,069	5,781	162,475
Financial liabilities				
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
Total financial liabilities	83,990	18,393	19,316	121,699

⁽¹⁾ 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 2019 were as follows:

	2019						
	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	Average interest rate (% per annum)
Financial assets							
Cash	-	-	-	-	69	69	-
Interbank and money market items, net	27,670	1,078	-	-	2,505	31,253	2.05
Investments, net	11,184	27,076	25,820	16,051	-	80,131	1.92
Loans to customers and accrued interest receivable, net of deferred revenue	50,827	8,296	6,728	268	492	66,611	2.85
Other assets	7,449	-	-	-	203	7,652	1.57
Total financial assets	97,130	36,450	32,548	16,319	3,269	185,716	
Financial liabilities							
Deposits	93,189	2,538	7	-	13,962	109,696	0.89
Interbank and money market items	17,792	-	-	-	6,785	24,577	2.66
Liabilities payable on demand	-	-	-	-	1,286	1,286	-
Debt issued and borrowings	5,140	2,881	602	2,980	-	11,603	3.22
Other liabilities	2,182	-	-	-	254	2,436	2.12
Total financial liabilities	118,303	5,419	609	2,980	22,287	149,598	
Effect of derivatives held for risk management	69,699	(69,430)	(11,360)	11,091	457,817	457,817	

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						
	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	Average interest rate (% per annum)
Financial assets							
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
Total financial assets	77,162	37,615	19,992	21,925	5,781	162,475	
Financial liabilities							
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
Total financial liabilities	96,790	5,593	-	-	19,316	121,699	
Effect of derivatives held for risk management	78,210	(83,245)	(7,210)	12,245	710,159	710,159	

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 2019 and 2018, the Branch has net open position assets (liabilities) denominated in the various currencies as follows;

	2019 Million Baht	2018 Million Baht
Net foreign currency exposure*		
US Dollar	(9,214)	4,395
Euro	(169)	190
Yen	(44)	(48)
Pound	769	898
Singapore Dollar	(57)	(57)
Others	11	255

* No non-performing loans amounting in foreign currency exposure at 31 December 2019 and 2018.

(c) Equity price risk

Equity price risk is any risk arising from changes in the price of equities or common stock that may cause volatility in the Branch's earnings or fluctuations in the value of the Branch's financial assets. The Branch manages its equity price risk by close monitoring of market situations to provide information for management.

3.3 Liquidity risk

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

The objective of the Branch's liquidity and funding management framework is to ensure that all foreseeable funding commitments can be met when due. Therefore, the Branch is required to maintain strong liquidity positions and to manage the liquidity profiles of assets, liabilities and commitments with the objective of ensuring that cash flows are balanced appropriately and that all anticipated obligations can be met when due.

The Branch monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Branch's operations and to mitigate the effects of fluctuations in cash flows.

The Branch manages its liquidity position under the Bank of Thailand's guideline on Liquidity Coverage Ratio and other applicable regulations. The Treasury Department is accountable for managing the Branch's liquidity position by providing short-term and long-term funding sources as well as investing in highly liquid assets in both domestic and foreign currencies. The Branch also ensures that its liquidity position is suitable and sufficient for the current and foreseeable market conditions. The Assets and Liabilities Management Committee supervises management of liquidity risk.

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3 Financial risk management (Cont'd)

3.3 Liquidity risk (Cont'd)

A maturity analysis of financial assets and liabilities as at 31 December 2019 and 2018 was as follows:

	2019						Total Million Baht
	At call Million Baht	Less than 3 months Million Baht	3 months to 1 year Million Baht	1 to 5 years Million Baht	Over 5 years Million Baht	No maturity Million Baht	
Financial assets							
Cash	-	-	-	-	-	69	69
Interbank and money market items, net	2,505	27,670	1,078	-	-	-	31,253
Derivative assets	94	2,199	3,378	16,843	12,848	-	35,362
Investments, net	-	11,184	27,076	25,820	16,051	-	80,131
Loans to customers and accrued interest receivable, net	-	34,727	11,185	16,940	2,724	-	65,576
Other assets	-	7,652	-	-	-	-	7,652
Total financial assets	2,599	83,432	42,717	59,603	31,623	69	220,043
Financial liabilities							
Deposits	89,241	17,910	2,538	7	-	-	109,696
Interbank and money market items	12,007	12,570	-	-	-	-	24,577
Liabilities payable on demand	1,286	-	-	-	-	-	1,286
Derivative liabilities	78	2,417	3,015	17,128	18,324	-	40,962
Debt issued and borrowings	-	310	1,702	5,534	4,057	-	11,603
Other liabilities	-	2,436	-	-	-	-	2,436
Total financial liabilities	102,612	35,643	7,255	22,669	22,381	-	190,560
Liquidity gap, net	(100,013)	47,787	35,464	36,934	9,242	69	29,483
	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	
Financial assets							
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
Total financial assets	5,325	59,710	42,126	46,345	32,256	153	185,915
Financial liabilities							
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
Total financial liabilities	92,854	19,865	8,542	12,673	15,589	-	149,523
Liquidity gap, net	(87,529)	39,845	33,584	33,672	16,667	153	36,392

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)

Risk-related 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 2019.

	2019			
	Level 1 Million Baht	Level 2 Million Baht	Level 3 Million Baht	Total Million Baht
Financial assets				
Financial assets at fair value through profit or loss				
Trading investments	16,860	11,889	-	28,749
Derivatives	2	35,345	15	35,362
Available-for-sale financial assets				
Debt securities	11,507	39,875	-	51,382
Total financial assets	<u>28,369</u>	<u>87,109</u>	<u>15</u>	<u>115,493</u>
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Debt issued and borrowings	-	11,291	312	11,603
Derivatives	9	40,919	34	40,962
Total financial liabilities	<u>9</u>	<u>52,210</u>	<u>346</u>	<u>52,565</u>

Transfers between Level 1 and Level 2 fair values during the year 2019 can be summarised as follows:

	Assets	
	Trading investment Million Baht	Available-for- sale financial assets Million Baht
At 31 December 2019		
Transfers from Level 1 to Level 2	639	3,679
Transfers from Level 2 to Level 1	21	2,601

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 2018.

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

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 of THB notes which are issued by the Branch and provide the counterparty with a return that is linked to spread of THB interest rate between certain tenors. The notes are classified as Level 3 due to the unobservability of parameters such as THB interest rate volatilities and correlations of THB interest rates between each tenors.

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 2019.

	Derivatives assets Million Baht	Derivatives liabilities Million Baht	Debt issued and borrowings Million Baht
At 1 January 2019	63	9	318
Gains and losses recognised in profit or loss	(8)	25	3
Settlements	-	-	(9)
Transfers out	(40)	-	-
At 31 December 2019	15	34	312
Unrealised gains and losses for the year included in profit or loss for assets/liabilities held at 31 December 2019	(8)	(25)	6

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.

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.

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

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

4 Fair value of financial instruments (Cont'd)

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

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 2019. 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
Other derivatives								
Interest rate derivatives	15	34	Price - Market comparable approach	IR Basis	0.8%	1.0%	0.8%	1.0%
Structure notes	-	312	Model - Option model	IR Correlation	87.9%	95.4%	87.9%	95.4%
At 31 December 2019	<u>15</u>	<u>346</u>						

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 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
Other derivatives								
Interest rate derivatives	63	9	Price - Market comparable approach	IR Basis	2.3%	2.6%	2.3%	2.6%
Structure notes	-	318	Model - Option model	IR Correlation	87.8%	99.0%	87.8%	99.0%
At 31 December 2018	<u>63</u>	<u>327</u>						

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 2019.

2019				
	Level 1 Million Baht	Level 2 Million Baht	Level 3 Million Baht	Total Million Baht
Financial assets				
Cash	69	-	-	69
Interbank and money market items, net	-	31,253	-	31,253
Loans to customers and accrued interest receivables	-	-	66,568	66,568
Total financial assets	<u>69</u>	<u>31,253</u>	<u>66,568</u>	<u>97,890</u>
Financial liabilities				
Deposits	-	109,696	-	109,696
Interbank and money market items	-	24,577	-	24,577
Total financial liabilities	<u>-</u>	<u>134,273</u>	<u>-</u>	<u>134,273</u>

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

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 2019 and 2018, can be summarised as follows:

	2019 Million Baht	2018 Million Baht
Assets maintained under Section 32	21,944	20,624
Sum of net capital for maintenance of assets under Section 32 and net balance of inter-office accounts		
Net fund brought in to maintenance assets under Section 32	20,100	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	1,607	8,173
Total	21,707	28,273
Regulatory Capital (in million Baht)	20,100	20,100
Regulatory Capital after deducting capital add-on from Single Lending Limit (in million Baht)	20,100	19,898
Capital Adequacy Ratio (%)	17.48	19.54
Capital Adequacy Ratio after deducting capital add-on from Single Lending Limit (%)	17.48	19.35

5 Maintenance of capital fund (Cont'd)

As at 31 December 2019 and 2018, 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 2019 and 2018, 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 2019 within 4 months after the year end date as indicated in the notification through the Branch's website www.hsbc.co.th.

6 Interbank and money market items, net (assets)

	2019			2018		
	At call Million Baht	Term Million Baht	Total Million Baht	At call Million Baht	Term Million Baht	Total Million Baht
Domestic						
The Bank of Thailand and Financial Institutions						
Development Fund	84	-	84	126	-	126
Commercial banks	364	28,675	29,039	457	11,293	11,750
<u>Add</u> Accrued interest receivable	-	12	12	-	6	6
<u>Less</u> Deferred revenue	-	(2)	(2)	-	(2)	(2)
Allowance for doubtful accounts	-	-	-	(1)	-	(1)
Total domestic	448	28,685	29,133	582	11,297	11,879
Foreign						
US Dollar	1,257	63	1,320	3,674	608	4,282
Euro	345	-	345	681	-	681
Other currencies	455	-	455	155	-	155
<u>Add</u> Accrued interest receivable	-	-	-	-	5	5
Total foreign	2,057	63	2,120	4,510	613	5,123
Total domestic and foreign	2,505	28,748	31,253	5,092	11,910	17,002

7 Derivatives

Derivatives held for trading

As at 31 December 2019 and 2018, fair value and notional amount of derivatives classified by type of risks are as follows:

Type of risk	2019				
	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	14,073	15,054	467,494	277,887	745,381
Interest rate	21,283	24,071	284,280	992,326	1,276,606
Others					
- Equities	2	-	161	-	161
- Credit derivative	4	-	-	1,206	1,206
- Bond	-	1,837	5,045	5,420	10,465
Total	35,362	40,962	756,980	1,276,839	2,033,819

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
Total	24,542	27,824	1,219,726	1,161,301	2,381,027

As at 31 December 2019 and 2018, proportions of the notional amount of derivative transactions, classified by counterparties, consisted of:

	2019 %	2018 %
Counterparty		
Financial institutions	57	59
Related parties	34	33
Third parties	9	8
Total	100	100

8 Investments, net

8.1 Classification of investment in securities

As at 31 December 2019 and 2018, the Branch classified investment types, as follows:

	2019	2018
	Fair value	Fair value
	Million Baht	Million Baht
Trading investments		
Government and state enterprise securities	28,264	25,391
Private debt instruments	485	1
Total	28,749	25,392
Available-for-sale investments		
Government and state enterprise securities	51,382	51,410
Total	51,382	51,410
Total investments, net	80,131	76,802

As at 31 December 2019, investments classified as available-for-sale with market values of Baht 21,944 million, Baht 16,401 million and Baht 10,281 million (2018: Baht 20,624 million, Baht 12,710 million and Baht 8,890 million) 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:

	2019	2018
	Fair value	Fair value
	Million Baht	Million Baht
Gain on investments		
Debt securities	289	33
Loss on investments		
Debt securities	-	(30)
Total	289	3
<u>Less</u> Deferred tax	(57)	-
Net	232	3

9 Loans to customers and accrued interest receivables, net

9.1 Classified by type of loans

	2019	2018
	Million Baht	Million Baht
Overdrafts	1,239	1,027
Loans	60,747	56,612
Bills	4,417	7,178
<u>Less</u> Deferred revenue	<u>(25)</u>	<u>(16)</u>
Total loans to customers net from deferred revenue	66,378	64,801
<u>Add</u> Accrued interest receivables	<u>233</u>	<u>221</u>
Total loans to customers net from deferred revenue add accrued interest receivables	66,611	65,022
<u>Less</u> Allowance for doubtful accounts		
- BoT's minimum requirement - individual approach	(675)	(786)
- Allowance in excess	<u>(360)</u>	<u>(316)</u>
Total loans to customers and accrued interest receivables, net	<u>65,576</u>	<u>63,920</u>

9.2 Classified by currencies and residencies of debtors

	2019			2018		
	Domestic	Foreign	Total	Domestic	Foreign	Total
	Million	Million	Million	Million	Million	Million
	Baht	Baht	Baht	Baht	Baht	Baht
Baht	52,897	-	52,897	44,839	-	44,839
US Dollar	11,459	1,377	12,836	16,495	1,447	17,942
Other currencies	583	62	645	1,771	249	2,020
Total*	<u>64,939</u>	<u>1,439</u>	<u>66,378</u>	<u>63,105</u>	<u>1,696</u>	<u>64,801</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

	2019			
	Pass Million Baht	Special mention Million Baht	Doubtful of loss Million Baht	Total Million Baht
Agriculture and mining	1,452	-	-	1,452
Industrial and commercial	29,453	62	128	29,643
Property and construction	5,010	-	-	5,010
Infrastructure and service	28,857	-	-	28,857
Home mortgages	267	-	-	267
Others	1,148	1	-	1,149
Total*	66,187	63	128	66,378

* Loans to customers net of deferred revenue

	2018			
	Pass Million Baht	Doubtful Million Baht	Doubtful of loss Million Baht	Total 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
Total*	64,580	12	209	64,801

* Loans to customers net of deferred revenue

9.4 Classified by grade

	2019			
	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	66,420	56,724	1	584
- Special mention	63	63	2	1
- Doubtful of loss	128	90	100	90
Total *	66,611	56,877		675
Allowance in excess				360
Total				1,035

* 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)

	2018		
	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
- Doubtful	12	12	100
- Doubtful of loss	209	161	100
Total *	65,022	60,280	
Allowance in excess			
Total			1,102

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

9.5 Non-performing loans

As at 31 December 2019 and 2018 the Branch had non-performing loans gross ("NPLs Gross") (including financial institutions) based on the BoT notification as follows:

	2019	2018
NPLs, gross (<i>in million Baht</i>)	128	221
Loans used for NPLs ratio calculation ⁽¹⁾ (<i>in million Baht</i>)	95,127	76,842
Percentage of total loans ⁽²⁾	0.13	0.29

⁽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 2019 and 2018 the Branch had non-performing loans net ("NPLs Net") (including financial institutions) based on the BoT notification as follows:

	2019	2018
NPLs, net (<i>in million Baht</i>)	38	43
Loans used for NPLs ratio calculation ⁽¹⁾ (<i>in million Baht</i>)	95,037	76,664
Percentage of total loans ⁽²⁾	0.04	0.06

⁽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 2019, allowance for doubtful accounts of Baht 90 million (2018: Baht 178 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 2019 and 2018 consisted of:

	2019					
	Pass Million Baht	Special mention Million Baht	Substandard Million Baht	Doubtful Million Baht	Doubtful of loss Million Baht	Total Million Baht
Beginning balance	924	-	-	17	161	1,102
(Reversal) doubtful accounts charge	20	1	-	(17)	(19)	(15)
Bad debt written off	-	-	-	-	(52)	(52)
Ending balance	944	1	-	-	90	1,035

	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
(Reversal) doubtful accounts charge	2	(2)	-	17	(1)	16
Ending balance	924	-	-	17	161	1,102

11 Right-of-use assets, net

	2019 Million Baht	2018 Million Baht
Cost	917	909
<u>Less</u> Accumulated amortisation	(542)	(523)
<u>Less</u> Loss on impairment	(269)	(269)
Total	106	117

Addition to Right-of-use assets during 2019 were Baht 8 million.

12 Deferred tax, net

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

	2019 Million Baht	2018 Million Baht
Deferred tax asset to be recovered within 12 months	49	52
Deferred tax asset to be recovered after more than 12 months	141	138
Deferred tax liability to be settled within 12 months	(449)	-
Deferred tax liability to be settled after more than 12 months	(67)	(36)
Deferred tax, net	(326)	154

12 Deferred tax, net (Cont'd)

Movements in deferred tax assets and liabilities during the year ended 31 December 2019 were as follows:

	(Charged)/ credited to			
	At	Profit	Other	At
	1 January	or loss	comprehensive	31 December
	2019	(Note 33)	income	2019
	Million Baht	Million Baht	(Note 33)	Million Baht
			Million Baht	
Deferred tax assets				
Allowance for doubtful accounts and provision for contingent liabilities	6	3	-	9
Provision for impairment	29	(4)	-	25
Others	155	3	(2)	156
Total	190	2	(2)	190
Deferred tax liabilities				
Investments	-	392	57	449
Borrowings and financial instruments	36	25	-	61
Others	-	6	-	6
Total	36	423	57	516
Net	154	(421)	(59)	(326)

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	
Deferred tax assets				
Allowance for doubtful accounts and provision for contingent liabilities	10	(4)	-	6
Provision for impairment	33	(4)	-	29
Others	163	(8)	-	155
Total	206	(16)	-	190
Deferred tax liabilities				
Investments	47	(39)	(8)	-
Borrowings and financial instruments	35	1	-	36
Others	40	(40)	-	-
Total	122	(78)	(8)	36
Net	84	62	8	154

13 Other assets

	2019 Million Baht	2018 Million Baht
Accrued income receivable	203	200
Margins	7,449	3,296
Others	212	90
Total	7,864	3,586

14 Classified assets

As at 31 December 2019 and 2018, 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:

	2019			
	Investments	Interbank	Loans to	Total
	Million Baht	and money	customers	Million Baht
	Million Baht	market	and accrued	Million Baht
	Million Baht	Million Baht	interest	Million Baht
	Million Baht	Million Baht	receivables	Million Baht
Pass	80,131	28,760	66,420	175,311
Special mention	-	-	63	63
Doubtful of loss	-	-	128	128
Total	80,131	28,760	66,611	175,502

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

15 Deposits

15.1 Classified by type of deposits

	2019 Million Baht	2018 Million Baht
Current	31,425	24,518
Saving	57,816	54,772
Term		
- Less than 6 months	17,885	6,126
- More than 6 months but less than 1 year	2,563	2,802
- Over 1 year	7	-
Total	109,696	88,218

15.2 Classified by currencies and residencies of depositors:

	2019			2018		
	Domestic Million Baht	Foreign Million Baht	Total Million Baht	Domestic Million Baht	Foreign Million Baht	Total Million Baht
Baht	90,347	824	91,171	70,407	1,200	71,607
US Dollar	14,380	3,313	17,693	14,530	1,009	15,539
Other currencies	822	10	832	1,071	1	1,072
Total	105,549	4,147	109,696	86,008	2,210	88,218

16 Interbank and money market items (liabilities)

	2019			2018		
	At call Million Baht	Term Million Baht	Total Million Baht	At call Million Baht	Term Million Baht	Total Million Baht
Domestic						
The Bank of Thailand and Financial Institutions						
Development Fund	3,800	-	3,800	-	-	-
Commercial banks	1	10,200	10,201	1	8,800	8,801
Finance, securities and credit foncier companies	2,953	-	2,953	2,747	-	2,747
Other financial institutions	1,470	2,370	3,840	2,052	665	2,717
Total domestic	8,224	12,570	20,794	4,800	9,465	14,265
Foreign						
Baht	3,690	-	3,690	5,213	-	5,213
US Dollar	-	-	-	1,005	-	1,005
Other currencies	93	-	93	498	-	498
Total foreign	3,783	-	3,783	6,716	-	6,716
Total domestic and foreign	12,007	12,570	24,577	11,516	9,465	20,981

17 Debt issued and borrowings

	2019			2018		
	THB Million Baht	USD Million Baht	Total Million Baht	THB Million Baht	USD Million Baht	Total Million Baht
Bills of exchange	-	3,582	3,582	-	-	-
Floating rate notes	8,021	-	8,021	9,145	-	9,145
Total	8,021	3,582	11,603	9,145	-	9,145

As at 31 December 2019, borrowings were in interest rates between 1.11% - 2.61% per annum (2018: 1.33% - 1.80% per annum).

18 Employee benefit obligations

Statement of financial position obligations for

	2019 Million Baht	2018 Million Baht
Long-term employment benefits		
- Long service award	14	-
Post employment benefits		
- Legal severance payment plan and gratuity plan	314	260
Total	328	260

	2019 Million Baht	2018 Million Baht
Year ended 31 December		
Statement of comprehensive income:		
Recognised in profit or loss		
Long-term employment benefits		
- Long service award	16	-
Post employment benefits		
- Legal severance payment plan and gratuity plan	72	26
Recognised in other comprehensive income		
Actuarial gains recognised during the year	(8)	-
Total	80	26

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 400 days of final salary upon retirement or involuntary separation before retirement.

18 Employee benefit obligations (Cont'd)

Gratuity plan

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

Other long-term benefits

The Branch gives money rewards to employees when they have worked for the Branch for 10, 20 and 30 years.

The statement of financial position obligations were determined as follows:

	2019 Million Baht	2018 Million Baht
Present value of unfunded obligations		
Long service award	14	-
Legal severance payment plan and gratuity plan	314	260
Statement of financial position obligations	328	260

Movement in the present value of the defined benefit obligations:

Long service award

	2019 Million Baht	2018 Million Baht
At 1 January	-	-
Expense recognised in profit or loss		
Current service costs	16	-
Benefits paid during the year	(2)	-
At 31 December	14	-

Legal severance payment plan and gratuity plan

	2019 Million Baht	2018 Million Baht
At 1 January	260	238
Expense recognised in profit or loss		
Current service costs	22	20
Past service costs	44	-
Interest cost on obligation	7	6
Benefits paid during the year	(11)	(4)
Actuarial gains in other comprehensive income	(8)	-
At 31 December	314	260

The expense is recognised in profit or loss:

	2019 Million Baht	2018 Million Baht
Other operating expenses		
- Employee expenses	89	26
Total	89	26

18 Employee benefit obligations (Cont'd)

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

	2019 Million Baht	2018 Million Baht
At 1 January	44	44
Recognised during the year	(6)	-
At 31 December	38	44

Principal actuarial assumptions at the reporting date:

	2019 (%)	2018 (%)
Discount rate	1.5	2.6
Future average salary increases	2	3
Retirement mortality rate retirement	Thai Mortality Ordinary Table 2017	Thai Mortality Ordinary Table 2017

As at 31 December 2019 and 2018, the impact on defined benefit obligations of key assumption changes are summarised as follows:

	2019 Million Baht	2018 Million Baht
Discount rate		
1.0% decrease	20	18
1.0% increase	(18)	(16)
Expected rate of salary increase		
1.0% decrease	(18)	(17)
1.0% increase	20	18
Turnover rate		
10% decrease in likelihood of turnover	8	7
10% increase in likelihood of turnover	(8)	(7)

Maturity analysis of benefits expected to be paid

	2019 Million Baht	2018 Million Baht
Benefits expected to be paid within 12 months	26	20
Benefits expected to be paid between 1 and 2 years	44	23
Benefits expected to be paid between 2 and 5 years	107	91
Benefits expected to be paid in more than 5 years	184	148

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

	2019	2018
	Million Baht	Million Baht
At 1 January	64	106
Provision used	(19)	(42)
At 31 December	45	64

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

20 Other liabilities

	2019	2018
	Million Baht	Million Baht
Accrued interest expense	66	53
Accrued expenses	479	469
Income tax payable	83	211
Marginal deposit	2,182	1,519
Others	958	721
Total	3,768	2,973

21 Commitments and contingent liabilities

	2019			2018		
	Baht	Foreign	Total	Baht	Foreign	Total
	Million	currency	Million	Million	currency	Million
	Baht	Million	Baht	Baht	Million	Baht
Guarantees of loans	8	3,749	3,757	9	317	326
Other guarantees	22,917	9,583	32,500	18,109	9,186	27,295
Liabilities under unmatured import bills	-	1,303	1,303	47	2,565	2,612
Letters of credit	23	1,770	1,793	-	990	990
Unused credit lines of overdrafts and credit facilities	57,404	20,647	78,051	57,834	19,720	77,554
Total	80,352	37,052	117,404	75,999	32,778	108,777

As at 31 December 2019, there is a civil litigation pending whereby the Branch has been alleged to negligently or by way of willful misconduct allowed transfers of funds out of the former retail customer's account maintained with the Branch and the closure of such accounts notwithstanding that the transfer and account closure instructions did not comply with the account mandate. The total amount claimed against the Branch is Baht 358 million. 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.

Moreover, the Branch also has received a claim by one corporate customer claiming that the Branch wrongfully and negligently paid the cheque which was not signed by the Company's authorised persons of approximately Baht 0.7 million. With respect to the case, it has been estimated that the likelihood of the outcome of the case is probable and the provision has already been made to cover this litigation.

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:

Name of entities/Personnel	Country of incorporation	Nature of relationships
Key management personnel	Thailand	Persons having authority and responsibility for planning, directing and controlling the activities of the Branch, directly or indirectly including any directs (whether executive or otherwise) of the Branch. The Branch's key management personnel consisted of: <ul style="list-style-type: none"> - Chief Executive Officer - Chief Financial Officer - Chief Operating Officer - Chief Risk Officer - Head of Global Market - Head of Global Banking - Head of Commercial Banking - Head of Regulatory Compliance - Head of Financial Crime Compliance - Head of Legal - Head of Communications - Head of Human Resources
HSBC Holdings plc	England	Ultimate parent company of the Head Office
The Hongkong and Shanghai Banking Corporation Limited (HBAP)	Hong Kong	Head Office and other branches
Other HSBC Group entities		
HSBC Bank plc	England	HSBC Holdings plc's subsidiary
HSBC UK Bank plc	England	HSBC Holdings plc's subsidiary
HSBC Bank USA, N.A.	United States	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 2019 and 2018 with the related parties were as follows:

	2019 Million Baht	2018 Million Baht
HBAP		
Interest income on inter-office lending	97	76
Fee and service income	118	89
Interest expense on inter-office borrowing	283	413
Fee and expenses	71	78
Head office expenses	532	451
Other expenses	29	16
Other HSBC Group entities		
Interest income	30	6
Fee and commission income	85	75
Interest expense	5	3
Fee and commission expenses	114	96
Other expenses	105	57

Significant balances with related parties as at 31 December 2019 and 2018 consisted of:

	2019 Million Baht	2018 Million Baht
Interbank and money market items (assets)		
HSBC Group entities		
HSBC Bank plc	2,012	4,439
HSBC Bank Australia Limited	6	52
HSBC Bank USA, N.A.	25	-
Others	4	3
Total	2,047	4,494
Interbank and money market items (liabilities)		
HSBC Group entities		
HSBC Bank USA, N.A.	40	1,127
HSBC UK Bank plc	153	-
HSBC France	132	494
HSBC Bank plc	94	58
HSBC Bank Malaysia Berhad	8	51
Hang Seng Bank Limited	36	44
HSBC Bank Australia Limited	77	21
Others	169	147
Total	709	1,942

22 Related parties (Cont'd)

Significant balances with related parties as at 31 December 2019 and 2018 consisted of: (Cont'd)

	2019 Million Baht	2018 Million Baht
Net balance of inter-office accounts with head office and other branches of the same juristic person		
HBAP		
Nostro accounts	(60)	(1,013)
Vostro accounts	352	504
Lending	(1,290)	(3,180)
Borrowings	2,412	11,357
Accrued interest receivables	-	(1)
Accrued interest expenses	-	3
Accrued expenses	66	454
Other receivables	(32)	(60)
Other payables	26	24
Total	1,474	8,088

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.

	2019 Million Baht	2018 Million Baht
Short-term employee benefits	143	145
Post-employment benefits	7	7
Share-based payment	8	17
Total	158	169

24 Share-based payments

Income statement charge

	2019 Million Baht	2018 Million Baht
Equity-settled share-based payments		
Restricted share awards	12	6
ShareMatch	1	1
Total	13	7

HSBC Share Awards

Award	Policy	Purpose
Restricted share awards	<ul style="list-style-type: none"> An assessment of performance over the relevant period ending on 31 December is used to determine the amount of the award to be granted. Deferred awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. Deferred share awards generally vest over a period of three years. Vested shares may be subject to a retention requirement (restriction) post-vesting. Awards granted from 2010 onwards are subject to a malus provision prior to vesting. Awards granted to Material Risk Takers from 2015 onwards are subject to clawback post vesting. 	<ul style="list-style-type: none"> To drive and reward performance consistent with strategy and align to shareholder interests. Deferral provides an incentive for a longer term commitment and the ability to apply malus.
International Employee Share Purchase Plan ('ShareMatch')	<ul style="list-style-type: none"> Employee monthly contributions are used to buy HSBC shares at the end of each quarter. The maximum amount each month is equivalent to GBP250 per month. Matching awards are added at a ratio of one free share for every three purchased. Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months. 	<ul style="list-style-type: none"> To align the interests of all employees with the creation of shareholder value.

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

	2019 Number	2018 Number
Outstanding at 1 January	71,380	118,963
Additions during the year	54,904	17,030
Released during the year	(35,267)	(64,613)
Outstanding at 31 December	91,017	71,380
Weighted average fair value of awards granted (Baht)	275.53	284.11

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

	2019 Million Baht	2018 Million Baht
Interbank and money market items	573	618
Investments and trading transactions	750	748
Investments in debt securities	845	731
Loans	1,875	1,705
Total interest income	4,043	3,802

27 Interest expense

	2019 Million Baht	2018 Million Baht
Deposits	531	414
Interbank and money market items	412	506
Contribution to Deposit Protection Agency	479	469
Borrowings	289	296
Total interest expense	1,711	1,685

28 Net fees and service income

	2019 Million Baht	2018 Million Baht
Fees and service income		
- Acceptances, aval and guarantees	125	124
- Remittances	269	280
- Underwriting, management and consulting	92	57
- Custody	381	359
- Others	126	126
Total	993	946
Fees and service expenses		
- Remittances	67	56
- Others	152	157
Total	219	213
Net	774	733

29 Net gain on trading and foreign exchange transactions

	2019 Million Baht	2018 Million Baht
Gain on trading and foreign exchange transactions		
- Foreign currencies and foreign currency related derivatives	1,954	2,990
- Interest rate related derivatives	(1,827)	(470)
- Debt instruments	2,347	119
- Others	(3)	-
Total	2,471	2,639

30 Bad debts, doubtful accounts expense and impairment loss

	2019 Million Baht	2018 Million Baht
Provision for doubtful accounts (Reversal)		
- Transactions between interbank and money markets	(1)	(3)
- Loans to customers	(15)	16
Total	(16)	13

31 Employee expenses

	2019 Million Baht	2018 Million Baht
Wages, salaries and bonus	1,017	1,017
Post-employment benefits - defined benefit plans	88	26
Post-employment benefits - defined contribution plans	62	53
Others	162	77
Total	1,329	1,173

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

	2019 Million Baht	2018 Million Baht
Expenses allocated from Head Office	307	289
Others	328	252
Total	635	541

33 Income tax expense

Income tax expense recognised in profit or loss

	Note	2019 Million Baht	2018 Million Baht
Current tax expense			
Current year		221	707
Under (over) provided in the prior year		12	(4)
		<u>233</u>	<u>703</u>
Deferred tax expense			
Movements in temporary differences	12	421	(62)
Total income tax expense		<u>654</u>	<u>641</u>

Income tax expense recognised in other comprehensive income

	2019			2018		
	Before tax Million Baht	Tax (expense) 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	286	(57)	229	(39)	8	(31)
Defined benefit plans actuarial gains	8	(2)	6	-	-	-
Total	<u>294</u>	<u>(59)</u>	<u>235</u>	<u>(39)</u>	<u>8</u>	<u>(31)</u>

Reconciliation of effective tax rate

	2019		2018	
	Rate (%)	Million Baht	Rate (%)	Million Baht
Profit before income tax expense		3,169		3,382
Income tax using the Thai corporation tax rate	20.0	634	20.0	676
Expenses not deductible for tax purposes	0.2	8	0.1	5
Under (over) provided in the prior year	0.4	12	(1.2)	(40)
Total	<u>20.6</u>	<u>654</u>	<u>18.9</u>	<u>641</u>