

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

FINANCIAL STATEMENTS

31 DECEMBER 2020



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 present fairly, in all material respects, the financial position of The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch (the Branch) as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with Thai Financial Reporting Standards (TFRSs) and the Bank of Thailand notifications in relation to the preparation and presentation of financial reporting as described in the notes to the financial statements no. 2 and no. 3.

What I have audited

The Branch's financial statements comprise:

- the statement of financial position as at 31 December 2020;
- 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 significant accounting policies and other explanatory information.

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 Code of Ethics for Professional Accountants issued by the Federation of Accounting Professions 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 the Bank of Thailand notifications in relation to the preparation and presentation of financial reporting as described in the notes to the financial statements no. 2 and no. 3, 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

1 March 2021

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Statement of Financial Position
As at 31 December 2020

		2020	2019
		Thousand	Thousand
	Notes	Baht	Baht
Assets			
Cash		61,554	68,642
Interbank and money market items, net	9, 27	52,534,816	31,253,135
Financial assets measured at fair value through profit or loss	10	14,852,262	-
Derivative assets	11	45,857,493	35,361,814
Investments, net	12	54,960,349	80,131,224
Loans to customers and accrued interest receivables, net	13	59,254,310	65,576,016
Leasehold improvements and equipment, net		59,418	41,657
Intangible asset, net		150	201
Right-of-use assets, net	16	100,022	106,450
Other assets	18	4,007,481	7,864,430
Total assets		231,687,855	220,403,569



Neeranuch Upaphattavanij
Chief Financial Officer
Bangkok Branch



Tan Swee Beng, Kelvin
Chief Executive Officer
Bangkok Branch

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

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Statement of Financial Position (Cont'd)
As at 31 December 2020

		2020	2019
		Thousand	Thousand
	Notes	Baht	Baht
Liabilities and accounts with head office and other branches of the same juristic person			
Liabilities			
Deposits	19	107,190,157	109,695,799
Interbank and money market items	20, 27	19,854,214	24,577,159
Liabilities payable on demand		1,248,042	1,285,850
Financial liabilities measured at fair value through profit or loss	21	9,922,791	-
Derivative liabilities	11	48,284,588	40,961,993
Debt issued and borrowings	22	-	11,602,629
Employee benefit obligations	23	340,357	327,510
Provisions	24	38,835	45,370
Deferred tax liabilities, net	17	206,790	326,320
Other liabilities	25	4,635,810	3,768,227
Total liabilities		191,721,584	192,590,857
Accounts with head office and other branches of the same juristic person			
Net funds brought in to maintain assets under the Act	8	22,600,000	20,100,000
Net balance of inter-office accounts with head office and other branches of the same juristic person	27	10,908,054	1,473,610
Other components of accounts with head office and other branches of the same juristic person		574,690	297,405
Retained earnings		5,883,527	5,941,697
Total accounts with head office and other branches of the same juristic person		39,966,271	27,812,712
Total liabilities and accounts with head office and other branches of the same juristic person		231,687,855	220,403,569

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 2020

		2020	2019
		Thousand	Thousand
	Notes	Baht	Baht
Interest income	27, 31	2,836,919	4,043,215
Interest expenses	27, 32	582,930	1,710,976
Net interest income		2,253,989	2,332,239
Fees and service income		962,528	992,721
Fees and service expenses		181,632	218,696
Net fees and service income	27, 33	780,896	774,025
Gains on financial instruments measured at fair value through profit or loss	34	2,320,982	-
Net gains on trading and foreign exchange transactions	35	-	2,471,492
Gains on investments		26,327	-
Other operating income		24,418	286
Total operating income		5,406,612	5,578,042
Other operating expenses			
Employee expenses	38	1,209,314	1,328,928
Premises and equipment expenses		189,366	372,185
Taxes and duties		70,298	88,819
Other expenses	27, 39	958,129	634,901
Total other operating expenses		2,427,107	2,424,833
Reversal of expected credit losses	36	(163,130)	-
Reversal of bad debts, doubtful accounts expense and impairment loss	37	-	(15,513)
Operating profit before income tax expenses		3,142,635	3,168,722
Income tax expenses	40	581,347	654,405
Net profit for the year		2,561,288	2,514,317
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Gains on debt instruments measured at fair value through other comprehensive income		93,349	-
Gains on remeasurement of available-for-sale investments		-	285,553
Other reserves		-	2,682
Income taxes relating to items that will be reclassified subsequently to profit or loss	40	(18,670)	(57,111)
Items that will not be reclassified subsequently to profit or loss			
Change in fair value attributable to change in credit risk of financial liabilities designated at fair value through profit or loss		92,373	-
Actuarial gains	23	4,197	7,925
Income taxes on items that will not be reclassified subsequently to profit or loss	40	(18,573)	(1,585)
Other comprehensive income for the year, net of income tax		152,676	237,464
Total comprehensive income for the year		2,713,964	2,751,781

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 2020

Other components of accounts with head office and other branches of the same juristic person									
	Net funds brought in to maintain assets under the Act	Net balance of inter-office accounts with head office and other branches of the same juristic person	Gains (losses) on remeasurement of available-for-sale investments	Gains on debt instruments measured at fair value through other comprehensive income	Change in fair value attributable to change in credit risk of financial liabilities designated at fair value through profit or loss	Other reserves	Retained earnings	Total	
Note	Thousand Baht	Thousand Baht	Thousand Baht	Thousand Baht	Thousand Baht	Thousand Baht	Thousand Baht	Thousand Baht	
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	20,100,000	1,473,610	230,809	-	-	66,596	5,941,697	27,812,712	
Balance at 1 January 2020 (Reported)	20,100,000	1,473,610	230,809	-	-	66,596	5,941,697	27,812,712	
Impact of the first-time adoption of new accounting standards	-	-	(230,809)	230,809	119,458	-	(119,458)	-	
Balance at 1 January 2020 (Restated)	20,100,000	1,473,610	-	230,809	119,458	66,596	5,822,239	27,812,712	
Comprehensive income for the year									
Net profit	-	-	-	-	-	-	2,561,288	2,561,288	
Other comprehensive income									
Gains on remeasurement of debt instruments measured at fair value through other comprehensive income, net of income tax	-	-	-	74,679	-	-	-	74,679	
Change in fair value attributable to change in credit risk of financial liabilities designated at fair value through profit or loss	-	-	-	-	74,639	-	-	74,639	
Actuarial gain, net of income tax	-	-	-	-	-	3,358	-	3,358	
Total other comprehensive income	-	-	-	74,679	74,639	3,358	-	152,676	
Total comprehensive income for the year	-	-	-	74,679	74,639	3,358	2,561,288	2,713,964	
Movement in balance of inter-office accounts with head office and other branches of the same juristic person	-	9,434,444	-	-	-	-	-	9,434,444	
Fund brought in to maintain assets under the Act transferred from retained earnings which remitted profit to head office	8	2,500,000	-	-	-	-	(2,500,000)	-	
Other reserves	-	-	-	-	-	5,151	-	5,151	
Balance at 31 December 2020	22,600,000	10,908,054	-	305,488	194,097	75,105	5,883,527	39,966,271	

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 2020

	2020	2019
	Thousand	Thousand
	Baht	Baht
Cash flows from operating activities		
Operating profit before income tax expenses	3,142,635	3,168,722
Adjustments to reconcile profit from operations before income tax expenses to cash received from operating activities		
Depreciation and amortisation	39,559	29,769
Expected credit losses	16,870	-
Reversal of bad debt, doubtful accounts expense and impairment loss	(180,000)	(15,513)
Unrealised losses (gains) on revaluation of trading investment	1,724,724	(1,957,534)
Gains on sale of investment	(26,327)	-
Gains on disposal of equipment	-	(280)
Employee benefit expenses	28,786	88,353
Unrealised gains on change in foreign exchange	(19,228)	(59,583)
Unrealised (gains) losses on derivative assets and liabilities	(3,173,083)	2,317,744
(Reversal) provisions for contingent liabilities	(674)	674
Decrease in other reserves	(287)	(46)
Net interest income	(2,253,989)	(2,332,239)
Proceeds from interest income	2,872,167	4,184,987
Interest paid	(628,422)	(1,697,627)
Income tax paid	(640,351)	(360,437)
Net profit from operations before change in operating assets and liabilities	902,380	3,366,990
Decrease (increase) in operating assets		
Interbank and money market items	(21,237,714)	(14,372,044)
Financial assets measured at fair value through profit or loss	12,172,051	-
Trading investment	-	(1,399,493)
Loans to customers	6,382,389	(2,181,545)
Other assets	3,871,668	(4,304,805)
Increase (decrease) in operating liabilities		
Deposits	(2,511,606)	22,185,685
Interbank and money market items	(4,724,369)	3,604,275
Liabilities payable on demand	(37,808)	(496,931)
Debt issued and borrowings	(1,573,579)	2,476,633
Employee benefit obligations	(11,743)	(13,462)
Provisions	(14,609)	(19,438)
Other liabilities	812,971	908,037
Net cash (used in) provided by operating activities	(5,969,969)	9,753,902

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 2020

	2020	2019
	Thousand	Thousand
	Baht	Baht
Cash flows from investing activities		
Purchases of debt securities measured at fair value through other comprehensive income	(48,788,807)	-
Proceeds from sales and maturity of debt securities measured at fair value through other comprehensive income	45,360,314	-
Purchases of available-for-sale investments	-	(55,488,585)
Proceeds from maturity of available-for-sale investments	-	55,673,000
Purchases of equipment	(30,958)	(25,389)
Proceeds from sales of equipment	-	280
Net cash (used in) provided by investing activities	(3,459,451)	159,306
Cash flows from financing activities		
Payment of lease liabilities	(12,112)	(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	9,434,444	(6,614,656)
Net cash provided by (used in) financing activities	9,422,332	(9,997,239)
Net decrease in cash and cash equivalents	(7,088)	(84,031)
Cash and cash equivalents at the beginning of the year	68,642	152,673
Cash and cash equivalents at the end of the year	61,554	68,642
Non-cash transactions		
Bad debt written off	69,279	-
Addition in right-of-use assets and lease liabilities	19,884	8,780
Fund brought in to maintain assets under the Act transferred from retained earnings which remitted profit to head office	2,500,000	-

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 1 March 2021.

2 Accounting policies

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

2.1 Basis of preparation

The financial statements have been prepared in accordance with Thai Financial Reporting Standards under the Accounting Act B.E. 2543, being those Thai Financial Reporting Standards issued under the Accounting Profession 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. SorNorSor. 21/2561 dated 31 October 2018, 'The Preparation and Format of the Financial Statements of Commercial Bank and Holding Parent Company of Financial Group' and BoT circular letter No. TorPorTor ForNorSor (23) Wor 276/2563 dated 28 February 2020, 'The Relief Programs for Customers Affected by Thai Economic Situations'.

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 Financial Reporting Standard 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 2 and Note 7.

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 Accounting policies (Cont'd)

2.2 Revised financial reporting standards that are effective for annual periods beginning on or after 1 January 2020 which have impact to the Branch

a) Financial instruments

The new financial reporting standards related to financial instruments are:

TAS 32	Financial Instruments: Presentation
TFRS 7	Financial Instruments: Disclosures
TFRS 9	Financial Instruments
TFRIC 16	Hedges of a Net Investment in a Foreign Operation
TFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The new financial reporting standards related to financial instruments introduce new classification and measurement requirements for financial instruments as well as provide derecognition guidance on financial assets and financial liabilities. The new guidance also provides an option for the Branch to apply hedge accounting to reduce accounting mismatch between hedged item and hedging instrument. In addition, the new rule provides detailed guidance on financial instruments issued by the Branch whether it is a liability or an equity. Among other things, they require extensive disclosure on financial instruments and related risks.

The new classification requirements of financial assets require the Branch to assess both i) business model for holding the financial assets; and ii) cash flow characteristics of the asset whether the contractual cash flows represent solely payments of principal and interest ('SPPI'). The classification also affects the financial assets' measurement. The new guidance requires assessment of allowance for impairment of financial assets as well as contract assets and recognition of expected credit loss from initial recognition.

On 1 January 2020, the Branch has adopted the financial reporting standards related to financial instruments in its financial statements. The impact from the first-time adoption has been disclosed in Note 3.

b) TFRS 16 Leases

TFRS 16 will result in almost all leases where the Branch is a lessee being recognised on the statement of financial position as the distinction between operating and finance lease is removed. An asset ('the right to use the leased item') and financial liability to pay rentals are recognised, with exception on short-term and low-value leases.

The Branch has early adopted this financial reporting standard since the year ended 31 December 2019.

2 Accounting policies (Cont'd)

2.2 Revised financial reporting standards that are effective for annual periods beginning on or after 1 January 2020 which have impact to the Branch (Cont'd)

- c) **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.
- 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.
- e) **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 Branch should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, ie that detection risk should be ignored.
 - That the Branch 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.

Management has already assessed that those accounting standards have no significant impact to the Branch.

2.3 New and amended financial reporting standards that are effective for accounting period beginning or after 1 January 2021 and have impacts to the Branch

Certain amended financial reporting standards have been issued that are not mandatory for current reporting period and have not been early adopted by the Branch.

- a) **Revised Conceptual Framework for Financial Reporting** added the following key principals and guidance:
 - Measurement basis, including factors in considering difference measurement basis
 - Presentation and disclosure, including classification of income and expenses in other comprehensive income
 - Definition of a reporting entity, which maybe a legal entity, or a portion of an entity
 - Derecognition of assets and liabilities

The amendment also includes the revision to the definition of an asset and liability in the financial statements, and clarification to the prominence of stewardship in the objective of financial reporting.

2 Accounting policies (Cont'd)

2.3 New and amended financial reporting standards that are effective for accounting period beginning or after 1 January 2021 and have impacts to the Branch (Cont'd)

- b) **Amendment to TFRS 9, Financial instruments and TFRS 7, Financial instruments: disclosures** amended to provide relief from applying specific hedge accounting requirements to the uncertainty arising from interest rate benchmark reform such as IBOR. The amendment also requires disclosure of hedging relationships directly affected by the uncertainty.
- c) **Amendment to TAS 1, Presentation of financial statements and TAS 8, Accounting policies, changes in accounting estimates and errors** amended to definition of materiality. The amendment allows for a consistent definition of materiality throughout the Thai Financial Reporting Standards and the Conceptual Framework for Financial Reporting. It also clarified when information is material and incorporates some of the guidance in TAS 1 about immaterial information.

The management is currently considering the impact of applying the standards above.

2.4 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 Accounting policies (Cont'd)

2.5 Cash

Cash consists of cash on hand and items in the course of collection from the bank according to the BoT's Notification.

2.6 Financial instruments

(a) Recognition and derecognition

The Branch initially recognises loans to customers, deposits and debts issued on the date of origination. Investment in debt securities are recognised on the settlement date. All other financial instruments are recognised on the trade date. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Branch has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished or when the obligation specified in the contract is discharged, cancelled, or expired.

(b) Classification and measurement

All financial instruments which are not measured at fair value through profit or loss ('FVPL') are initially recognised at fair value, plus (or less) transaction costs that are directly attributable to the acquisition. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price, which is the fair value of the consideration transferred or received. However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the Branch recognises the difference as a trading gain or loss at inception ('day one gain or loss'). In all other cases, the entire day one gain or loss is deferred and recognised in the income statement over the life of the transaction until the transaction: (1) matures, (2) is closed out, (3) the valuation inputs become observable or (4) the Branch enters into an offsetting transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the Branch manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the TFRS offsetting criteria.

Financial assets

The Branch classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value either through profit or loss ('FVPL') or through other comprehensive income ('FVOCI'); and
- Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Branch has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ('FVOCI').

2 Accounting policies (Cont'd)

2.6 Financial instruments (Cont'd)

(b) Classification and measurement (Cont'd)

The Branch reclassifies debt investments only when its business model for managing those assets changes.

Financial liabilities and equity instruments

Financial instruments issued by the Branch must be classified as financial liabilities or equity instruments by considering contractual obligations.

- Where the Branch has an unconditional contractual obligation to deliver cash or another financial asset to another entity, it is considered a financial liability unless there is a predetermined or possible settlement for a fixed amount of cash in exchange of a fixed number of the Branch's own equity instruments.
- Where the Branch has no contractual obligation or has an unconditional right to avoid delivering cash or another financial asset in settlement of the obligation, it is considered an equity instrument.

The Branch subsequently measured all financial liabilities at amortised cost, except for:

- Financial liabilities measured at fair value through profit or loss including derivatives, financial liabilities held for trading and other financial liabilities designated as such at initial recognition. Gain or losses on financial liabilities designated at fair value through profit or loss are presented gain or losses on financial instruments measured at fair value through profit or loss.
- Financial guarantee contracts and loan commitments

(c) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost. Such financial assets include most loans to customers, interbank and money market items and some investments in debt securities. In addition, most financial liabilities are measured at amortised cost. The Branch accounts for amortised cost financial instruments using trade date accounting, except for investments in debt securities which uses settlement date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, the difference is deferred and recognised over the life of the loan through the recognition of interest income.

The Branch may commit to underwriting loans on fixed contractual terms for specified periods of time. When the Branch intends to hold the loan, the loan commitment is included in the impairment calculations set out in Note 2.6 (h).

When debt securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the statement of financial position and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell ('reverse repos') are not recognised on the statement of financial position and an asset is recorded in respect of the initial consideration paid. Repos and reverse repos are measured at amortised cost. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement.

2 Accounting policies (Cont'd)

2.6 Financial instruments (Cont'd)

(d) Debt instruments measured at fair value through other comprehensive income

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at fair value through other comprehensive income ('FVOCI'). These comprise primarily investment in debt securities. They are recognised on the settlement date and are normally derecognised when they are either sold or matured. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold or matured. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains (losses) from investments'. Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in profit or loss.

(e) Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more criteria set out below and are designated irrevocably at inception:

- The use of the designation removes or significantly reduces an accounting mismatch;
- A group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy
- The financial liability contains one or more non-closely related embedded derivatives.

Designated financial assets are recognised when the Branch enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when the Branch enters into contracts with counterparties, which is generally on origination date, and are normally derecognised when extinguished. Subsequent changes in fair values of designated financial liabilities and related derivatives are recognised in the income statement in 'Net gains (losses) on financial instruments at fair value through profit or loss' except for the effect of changes in the liabilities' credit risk, which is presented in other comprehensive income, unless that treatment would create or enlarge an accounting mismatch in profit or loss.

Under the above criterion, the main classes of financial instruments designated by the Branch are:

- Debt instruments for funding purposes that are designated to reduce an accounting mismatch: The interest and/or foreign exchange exposure on certain fixed-rate debt securities issued has been matched with the interest and/or foreign exchange exposure on certain swaps as part of a documented risk management strategy.
- Financial liabilities that contain both deposit and derivative components: These financial liabilities are managed and their performance evaluated on a fair value basis.

2 Accounting policies (Cont'd)

2.6 Financial instruments (Cont'd)

(f) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially at fair value from the date a derivative contract is entered into ('trade date') and are subsequently remeasured at fair value through profit or loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. This includes embedded derivatives in financial liabilities, which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis

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

Fair value hedge

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

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

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in other comprehensive income. Any gain or loss relating to an ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in other comprehensive income are recycled through profit or loss in the periods in which the hedged item will affect profit or loss.

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 other comprehensive income is retained in other comprehensive income 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 other comprehensive income is recognised in profit or loss immediately.

2 Accounting policies (Cont'd)

2.6 Financial instruments (Cont'd)

(g) Modification

Where the terms of contractual cash flows of a financial asset are renegotiated or modified, the Branch assesses whether the new terms are substantially different from the original terms. For instance, the change in cash flows and the change in interest rate.

If the terms are not substantially different, the Branch recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the modified contractual cash flows that are discounted at the financial asset's original effective interest rate.

If the terms are substantially different, the Branch derecognises the original financial asset and recognises a new financial asset at fair value and recalculates a new effective interest rate for the asset. At the date of renegotiation, the difference between the carrying amount allocated to the part derecognised and the consideration received for the part derecognised is recognised in profit or loss.

(h) Impairment of financial assets

Expected credit losses ('ECL') are recognised for interbank and money market items, loans and advances to customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at FVOCI, and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months, or less, where the remaining life is less than 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets that experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment are considered to be in default or credit impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ('POCI') are treated differently.

Credit impaired ('stage 3')

The Branch determines that a financial instrument is credit impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- Contractual payments of either principal or interest are past due for more than 90 days or 3 months;
- There are other indications that the borrower is unlikely to pay, such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- The loan is considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due. Therefore, the definitions of credit impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or credit impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost amount.

2 Accounting policies (Cont'd)

2.6 Financial instruments (Cont'd)

(h) Impairment of financial assets (Cont'd)

Write-off

Financial assets and the related impairment allowances are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Renegotiation

Loans are identified as renegotiated and classified as credit impaired when the Branch modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be POCI and will continue to be disclosed as renegotiated loans.

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

Significant increase in credit risk ('stage 2')

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, which are typically corporate and commercial customers, and included on a watch or worry list, are included in stage 2.

2 Accounting policies (Cont'd)

2.6 Financial instruments (Cont'd)

(h) Impairment of financial assets (Cont'd)

For certain portfolios of debt securities where external market ratings are available and credit ratings are not used in credit risk management, the debt securities will be in stage 2 if their credit risk increases to the extent they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term, and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil their contractual cash flow obligations.

Unimpaired and without significant increase in credit risk ('stage 1')

ECL resulting from default events that are possible within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Purchased or originated credit impaired

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans that are not POCI will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

Measurement of ECL

The assessment of credit risk and the estimation of ECL are unbiased and probability-weighted, and incorporate all available information that is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

In general, the Branch calculates ECL using three main components: a probability of default, a loss given default ('LGD') and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

2 Accounting policies (Cont'd)

2.6 Financial instruments (Cont'd)

(h) Impairment of financial assets (Cont'd)

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL ('12-month' or 'lifetime ECL') is the maximum contractual period over which the Branch is exposed to credit risk. For overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the Branch's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the Branch remains exposed to credit risk that is not mitigated by credit risk management actions.

Forward-looking economic inputs

The Branch applies multiple forward-looking economic scenarios determined with reference to external forecast distributions representative of our view of forecast economic conditions. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. In certain economic environments, additional analysis may be necessary and may result in additional scenarios or adjustments, to reflect a range of possible economic outcomes sufficient for an unbiased estimate. The detailed methodology is disclosed in Note 4 to the financial statements.

Surplus reserve

The Branch measures the surplus reserve on the date of adoption for new financial reporting standards related to financial instruments by comparing the difference between allowance for expected credit losses according to requirement under new financial reporting standards related to financial instruments and total reserves that the Branch had on 31 December 2019. In which, the Group will amortised the surplus reverse using straight-line method by 5 years consecutively in accordance with notification to utilise surplus reserve from Bank of Thailand dated on 6 November 2019.

(i) Financial guarantee contract and loan commitment

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of a) the amount of expected credit loss determined; and b) the amount initially recognised less the cumulative amount of income recognised.

Loan commitments are measured at the amount of allowance for expected credit losses. The Branch has not provided any commitment at a below-market interest rate, or that can be settled net in cash or by delivering or issuing other financial instruments.

Expected credit losses on loan commitments and financial guarantee contract are recognised as provisions.

2 Accounting policies (Cont'd)

2.6 Financial instruments (Cont'd)

(j) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when the Branch has a legally enforceable right of set-off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The Branch has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract. The offsetting have been presented separately in Note 6.

(k) Accounting policies applied until 31 December 2019

The Branch has applied TFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Branch's previous accounting policy. The items that are subjected to the significant changes in the accounting policies are investments, which are subjected to changes in classification and measurements, and allowance for doubtful accounts, which are remeasured by using expected credit loss model. The previous accounting policies for these items are set out below.

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 other comprehensive income. 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 other comprehensive income. Impairment losses is recognised in profit or loss. When these investments are derecognised, the cumulative gain or loss previously recognised directly in other comprehensive income 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.

2 Accounting policies (Cont'd)

2.6 Financial instruments (Cont'd)

(k) Accounting policies applied until 31 December 2019 (Cont'd)

Investments (Cont'd)

Investments in debt securities and equity securities (Cont'd)

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 other comprehensive income 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.

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 Accounting policies (Cont'd)

2.6 Financial instruments (Cont'd)

(k) Accounting policies applied until 31 December 2019 (Cont'd)

Allowance for doubtful accounts (Cont'd)

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.

2.7 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.

2.8 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.

2.9 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 Accounting policies (Cont'd)

2.10 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 or Accounts with head office and other branches of the same juristic person. In this case the tax is also recognised in other comprehensive income or Accounts with head office and other branches of the same juristic person, respectively.

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

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

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

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

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

2.11 Employee benefits

Post-employment benefits

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

Defined contribution plan

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

2 Accounting policies (Cont'd)

2.11 Employee benefits (Cont'd)

Defined benefit plans (Cont'd)

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

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

Equity compensation plan

Where shares of HSBC Holdings plc, the ultimate parent company of the Head Office, are awarded to an employee of the Branch, the cost of shares awarded is amortised over the vesting period from the date the shares are awarded.

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.

2.12 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.

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 Accounting policies (Cont'd)

2.13 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.

Liabilities under financial guarantee are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable.

2.14 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in interest income and interest expense in profit or loss using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Branch estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the Branch that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

2.15 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.

The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch
Notes to the Financial Statements
For the year ended 31 December 2020

3 Adoption of new financial reporting standards and changes in accounting policies

The Branch has adopted financial reporting standards relating to financial instruments (TAS 32, TFRS 7 and TFRS 9) retrospectively from 1 January 2020, but has not restated comparatives for the 2019 reporting period, as permitted in the standards. The reclassifications and adjustments arising from the new requirements are therefore recognised in the opening statement of financial position on 1 January 2020. The new accounting policies applied from 1 January 2020 were disclosed in Note 2.

The following tables show the adjustments made to the amounts recognised in each line item in the statement of financial position upon adoption of the financial reporting standards relate to financial instruments (TAS 32 and TFRS 9).

	Original (TAS 105) Measurement category	New (TFRS 9) Measurement category	As at 31 December 2019 (As previously reported) Million Baht	TFRS 9 reclassification to			Remeasurement of financial instruments Million Baht	Remeasurement of allowance for expected credit losses Million Baht	Total adjustments of financial instruments Million Baht	As at 1 January 2020 (TFRS 9) Million Baht
				Fair value through profit or loss Million Baht	Fair value through other comprehensive income Million Baht	Amortised cost Million Baht				
Assets										
Cash	Amortised cost	Amortised cost	69	-	-	-	-	-	-	69
Interbank and money market items, net	Amortised cost	Amortised cost	31,253	-	-	-	-	-	-	31,253
Financial assets measured at fair value through profit or loss	N/A	FVPL	-	28,749	-	-	-	-	-	28,749
Derivative assets	FVPL	FVPL	35,362	-	-	-	-	-	-	35,362
Investments, net	Trading	N/A	28,749	(28,749)	-	-	-	-	-	-
	Available-for-sale	FVOCI	51,382	-	-	-	3	(3)	-	51,382
Loans to customers and accrued interest receivables, net	Amortised cost	Amortised cost	65,576	-	-	(33)	-	26	26	65,569
Other assets	Amortised cost	Amortised cost	7,864	-	-	-	-	-	-	7,864
Liabilities										
Deposits	Amortised cost	Amortised cost	109,696	-	-	-	-	-	-	109,696
Interbank and money market items	Amortised cost	Amortised cost	24,577	-	-	-	-	-	-	24,577
Liabilities payable on demand	Amortised cost	Amortised cost	1,286	-	-	-	-	-	-	1,286
Financial liabilities measured at fair value through profit or loss	N/A	FVPL	-	11,603	-	-	-	-	-	11,603
Derivative liabilities	FVPL	FVPL	40,962	-	-	-	-	-	-	40,962
Debt issued and borrowings	Trading	N/A	11,603	(11,603)	-	-	-	-	-	-
Provisions	N/A	N/A	45	-	-	-	-	23	23	68
Deferred tax liabilities, net	N/A	N/A	326	-	-	-	-	-	-	326
Other liabilities	Amortised cost	Amortised cost	3,768	-	-	(33)	-	-	-	3,735
Accounts with head office and other branches of the same juristic person										
Other components of accounts with head office and other branches of the same juristic person	N/A	N/A	297	-	-	-	120	3	123	420
Retained earnings	N/A	N/A	5,942	-	-	-	(120)	-	(120)	5,822

3 Adoption of new financial reporting standards and changes in accounting policies (Cont'd)

The total impact on the retained earnings as at 1 January 2020 is as follows:

	Million Baht
Retained earnings as at 31 December 2019 (As previously reported)	5,942
Increase in allowance for expected credit losses of investment in debt securities	(3)
Decrease in allowance for expected credit losses of loans to customers	26
Increase in allowance for expected credit losses of loan commitments and financial guarantee contracts	(23)
Reclassify changes in fair value attributable to changes in own credit risk previously recognised in retained earnings to other comprehensive income	(120)
Adjustment to retained earnings from adoption of TFRS 9 on 1 January 2020	(120)
Retained earnings as at 1 January 2020 (TFRS 9)	5,822

4 Financial risk management

The Branch has following risks from financial instruments:

4.1 Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. Credit risk arises principally from direct lending and trade finance but also from other products such as guarantees and derivatives.

The risk is monitored using various internal risk management measures and within limits approved by individuals within a framework of delegated authorities and managed through a robust risk control framework, which outlines clear and consistent policies, principles and guidance for risk managers.

The principal objectives of the Branch's credit risk management function are:

- to maintain a strong culture of responsible lending and a robust credit risk policy and control framework;
- to both partner and challenge our businesses in defining, implementing and continually re-evaluating our credit risk appetite under actual and stress scenario conditions; and
- to ensure there is independent, expert scrutiny of credit risks, their costs and their mitigation.

Concentration of exposure

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities or operate in the same geographical areas or industry sectors so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. The Branch use a number of controls and measures to minimise undue concentration of exposure in the portfolios across industries. These include portfolio and counterparty limits, approval and review controls, and stress testing.

4 Financial risk management (Cont'd)

4.1 Credit risk (Cont'd)

Concentration of exposure (Cont'd)

As at 31 December 2020 and 2019, concentrations of credit risk relative to the loans and receivables net of deferred revenue summarised by type of industry are as follows:

	2020 Million Baht	2019 Million Baht
Agriculture and mining	2,333	1,452
Industrial and commercial	33,307	29,643
Property and construction	3,624	5,010
Infrastructure and service	19,228	28,857
Home mortgages	247	267
Others	1,174	1,149
Total	<u>59,913</u>	<u>66,378</u>

Expected credit losses

For details of our impairment policies on financial assets, see Note 2.6(h) to the financial statements.

Financial instruments to which the impairment requirements in TFRS 9 are applied are summarised as follows:

	As at 31 December 2020		As at 1 January 2020	
	Gross carrying/ notional amount Million Baht	Allowance for ECL Million Baht	Gross carrying/ notional amount Million Baht	Allowance for ECL Million Baht
Cash	62	-	69	-
Interbank and money market items	52,535	-	31,253	-
Loans to customers and accrued interest receivables	60,042	68	66,578	109
Other assets	3,940	-	7,652	-
Total amount on the statement of financial position	<u>116,579</u>	<u>68</u>	<u>105,552</u>	<u>109</u>
Loan commitments	93,593	5	78,051	9
Financial guarantees and other commitments	35,657	4	39,353	14
Total amount off balance sheet	<u>129,250</u>	<u>9</u>	<u>117,404</u>	<u>23</u>
	As at 31 December 2020		As at 1 January 2020	
	Fair value Million Baht	Allowance for ECL Million Baht	Fair value Million Baht	Allowance for ECL Million Baht
Investments measured at fair value through other comprehensive income	54,960	7	51,382	3

The following table provides an overview of the Branch's credit risk by stage, and the associated ECL coverage. The financial assets recorded in each stage have the following characteristics:

- Stage 1: unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised;
- Stage 2: a significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised;
- Stage 3: objective evidence of impairment, and are therefore considered to be in default or otherwise credit impaired on which a lifetime ECL is recognised; and
- Purchased or originated credit impaired ('POCI'): purchased or originated at a deep discount that reflects the incurred credit losses on which a lifetime ECL is recognised.

4 Financial risk management (Cont'd)

4.1 Credit risk (Cont'd)

Expected credit losses (Cont'd)

The credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL at 31 December 2020 and 1 January 2020 are summarised as follows:

	Gross carrying/ notional amount			Allowance for ECL			ECL coverage %		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	Million Baht	Million Baht	Million Baht	Million Baht	Million Baht	Million Baht	%	%	%
Cash	62	-	-	-	-	-	-	-	-
Interbank and money market items	52,535	-	-	-	-	-	-	-	-
Loans to customers and accrued interest receivables	53,115	6,879	48	9	11	48	-	-	100
Other assets	3,940	-	-	-	-	-	-	-	-
Loan commitments	69,820	23,773	-	2	3	-	-	-	-
Financial guarantees and other commitments	26,473	9,065	119	2	2	-	-	-	-
As at 31 December 2020	205,945	39,717	167	13	16	48	-	-	29
	Gross carrying/ notional amount			Allowance for ECL			ECL coverage %		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	Million Baht	Million Baht	Million Baht	Million Baht	Million Baht	Million Baht	%	%	%
Cash	69	-	-	-	-	-	-	-	-
Interbank and money market items	31,253	-	-	-	-	-	-	-	-
Loans to customers and accrued interest receivables	59,734	6,717	127	16	4	89	-	-	70
Other assets	7,652	-	-	-	-	-	-	-	-
Loan commitments	61,174	16,877	-	6	3	-	-	-	-
Financial guarantees and other commitments	27,884	11,355	114	4	10	-	-	-	-
As at 1 January 2020	187,766	34,949	241	26	17	89	-	-	37

4 Financial risk management (Cont'd)

4.1 Credit risk (Cont'd)

Expected credit losses (Cont'd)

The recognition and measurement of ECL involves the use of significant judgement and estimation. The Branch forms multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate.

The Branch uses multiple economic scenarios to reflect assumptions about future economic conditions, starting with three economic scenarios based on consensus forecast distributions, supplemented by alternative or additional economic scenarios and/or management adjustments where, in management's judgement, the consensus forecast distribution does not adequately capture the relevant risks.

Maximum exposure to credit risk

The following table presents our maximum exposure before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements). The table excludes financial instruments whose carrying amount best represents the net exposure to credit risk. For the financial assets recognised in the statement of financial position, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and other guarantees granted, it is the maximum amount that the Branch would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the facilities.

	Maximum exposure Million Baht
Financial assets measured at fair value through profit or loss	13,163
Investments	54,468
Total	67,631

4 Financial risk management (Cont'd)

4.1 Credit risk (Cont'd)

Collateral and other credit enhancements

Although collateral can be an important mitigant of credit risk, it is the Branch's practice to lend on the basis of the customer's ability to meet their obligations out of cash flow resources rather than placing primary reliance on collateral and other credit risk enhancements. Depending on the customer's credit and the type of product, facilities may be provided without any collateral or other credit enhancements. For other lending, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of default, the Branch may utilise the collateral as a source of repayment.

Depending on its form, collateral can have a significant financial effect in mitigating the Branch's exposure to credit risk. Where there is sufficient collateral, an expected credit loss is not recognised. This is the case for reverse repurchase agreements and for certain loans and advances to customers where the loan to value ('LTV') is very low.

The collateral measured in the following tables consists of fixed first charges on real estate, and charges over cash and marketable financial instruments. The values in the tables represent the expected market value on an open market basis. No adjustment has been made to the collateral for any expected costs of recovery. Marketable securities are measured at their fair value.

Other types of collateral such as unsupported guarantees and floating charges over the assets of a customer's business are not measured in the following tables. While such mitigants have value, often providing rights in insolvency, their assignable value is not sufficiently certain and they are therefore assigned no value for disclosure purposes. However, such collaterals are included in the calculation of allowance for expected credit losses.

	Gross carrying amount Million Baht	Expected credit losses Million Baht	Net carrying amount Million Baht	Fair value of collateral held Million Baht
Stage 1				
Not collateralised	141,343	11	141,332	-
Fully collateralised	3,263	-	3,263	3,133
Partially collateralised	7,470	1	7,469	4,423
Total	152,076	12	152,064	7,556
Stage 2				
Not collateralised	38,472	16	38,456	-
Fully collateralised	12	-	12	12
Partially collateralised	1,233	-	1,233	240
Total	39,717	16	39,701	252
Stage 3				
Not collateralised	167	48	119	-
Total	167	48	119	-
At 31 December 2020	191,960	76	191,884	7,808

4 Financial risk management (Cont'd)

4.1 Credit risk (Cont'd)

Collateral and other credit enhancements (Cont'd)

In the Financial institution sector, trading facilities are supported by charges over financial instruments such as cash and debt securities. Financial collateral in the form of marketable securities is used in most of the Branch's over-the-counter ('OTC') derivatives activities and in securities financing transactions ('SFT') such as repos and reverse repos. Netting is used extensively and is a prominent feature of market standard documentation.

The International Swaps and Derivatives Association ('ISDA') master agreement is the preferred agreement for documenting derivatives activity. It is common for the parties involved in a derivative transaction to execute a credit support annex ('CSA') in conjunction with the ISDA master agreement. Under a CSA, collateral is passed between the parties to mitigate the counterparty risk inherent in outstanding positions. The majority of CSAs are with financial institution clients.

The Branch manages the counterparty exposure on its OTC derivative contracts by using collateral agreements with counterparties and netting agreements. The Branch places strict policy restrictions on collateral types and as a consequence the types of collateral received and pledged are, by value, highly liquid and of a strong quality, being predominantly cash. The details regarding legally enforceable right of offset in the event of counterparty default and collateral received in respect of derivatives is disclosed on Note 6 to the financial statements.

Counterparty credit risk

Counterparty credit risk is the risk of financial loss if the counterparty to a transaction defaults before satisfactorily settling it. It arises principally from over-the-counter ('OTC') derivatives and securities financing transactions and is calculated in both the trading and non-trading books. Transactions vary in value by reference to a market factor such as an interest rate, exchange rate or asset price.

The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment ('CVA'). The details methodology on CVA is disclosed on Note 7 to the financial statements.

4 Financial risk management (Cont'd)

4.2 Market risk

Market risk is the risk that movements in market factors, such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce income or the value of the Branch's portfolios

Market risk is measured using sensitivities, value at risk and stress testing, giving a detailed picture of potential gains and losses for a range of market movements and scenarios, as well as tail risks over specified time horizons. The risk is monitored using value at risk, stress testing and other measures, including the sensitivity of net interest income and the sensitivity of structural foreign exchange and managed using risk limits approved by the Regional Market Risk Manager, the risk management meeting in various global businesses.

Sensitivity analysis measures the impact of individual market factor movements on specific instruments or portfolios, including interest rates, foreign exchange rates and credit spreads, such as the effect of a one basis point change in yield. The Branch use sensitivity measures to monitor the market risk positions within each risk type. Sensitivity limits are set for portfolios, products and risk types, with the depth of the market being one of the principal factors in determining the level of limits set.

Value at risk

VaR is a technique that estimates the potential losses in the trading portfolio from movements in market rates and prices over a specified time horizon at a particular level of confidence.

The Branch models are based on historical simulation that incorporate the following features:

- historical market rates and prices are calculated with reference to foreign exchange and interest rates, commodity prices, equity prices and the associated volatilities;
- potential market movements utilised for VaR are calculated with reference to data from the past two years (500 working days); and
- VaR measures are calculated at 99 percent confidence level and use a one-day holding period.

The models also incorporate the effect of option features on the underlying exposures. The nature of the VaR models means that an increase in observed market volatility will lead to an increase in VaR without any changes in the underlying positions.

Stress testing

Stress testing is an important procedure that is integrated into the Branch's market risk management framework to evaluate the potential impact on portfolio values in the case of extreme but plausible events or movements in a set of financial variables. In such scenarios, losses can be greater than those predicted by VaR model. The Branch also performs stress testing using the scenarios as specified by the BoT, covering parallel and non-parallel shifts in interest rate yield curves and depreciation and appreciation in major currencies.

4 Financial risk management (Cont'd)

4.2 Market risk (Cont'd)

Back-testing

The Branch routinely validates the accuracy of our VaR models by back-testing them against both actual and hypothetical profit and loss. Hypothetical profit and loss excludes non-modelled items such as fees, commissions and revenues of intra-day transactions.

The actual number of profits or losses in excess of VaR over this period can therefore be used to gauge how well the models are performing.

According to BoT notification No. 94/2551 dated 27 November 2008 Re: Guideline on Supervision of Market Risk and Capital Requirement for Market Risk of Financial Institutions, VaR back-testing exceptions, on Hypothetical loss, are counted towards the multiplier determined by the BoT for the purposes of the capital requirement calculation for market risk. The additional capital multiplier will be added if the exceptions are greater than 4 times over the past 250 business days.

(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 2020, significant financial assets and liabilities classified by type of interest rate were as follows:

	2020			
	Floating interest rate Million Baht	Fixed interest rate Million Baht	Non - interest bearing Million Baht	Total Million Baht
Financial assets				
Cash	-	-	62	62
Interbank and money market items, net	809	48,782	2,944	52,535
Financial assets measured at fair value through profit or loss	-	14,852	-	14,852
Investments, net	-	54,960	-	54,960
Loans to customers ⁽¹⁾	31,627	28,113	302	60,042
Other assets	3,720	-	220	3,940
Total financial assets	36,156	146,707	3,528	186,391
Financial liabilities				
Deposits	79,466	12,396	15,328	107,190
Interbank and money market items	14,726	491	4,637	19,854
Liabilities payable on demand	-	-	1,248	1,248
Financial liabilities measured at fair value through profit or loss	6,126	3,797	-	9,923
Other liabilities	3,131	-	123	3,254
Total financial liabilities	103,449	16,684	21,336	141,469

⁽¹⁾ Loans to customers and accrued interest receivable net of deferred revenue

4 Financial risk management (Cont'd)

4.2 Market risk (Cont'd)

(a) Interest rate risk (Cont'd)

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

4 Financial risk management (Cont'd)

4.2 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 2020 were as follows:

	2020						
	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	-	-	-	-	62	62	-
Interbank and money market items, net	43,786	5,805	-	-	2,944	52,535	0.72
Financial assets measured at fair value through profit or loss	58	410	916	13,468	-	14,852	1.64
Investments, net	13,825	25,269	15,866	-	-	54,960	1.29
Loans to customers and accrued interest receivable, net of deferred revenue	48,779	6,579	4,140	242	302	60,042	2.21
Other assets	3,720	-	-	-	220	3,940	0.92
Total financial assets	110,168	38,063	20,922	13,710	3,528	186,391	
Financial liabilities							
Deposits	89,313	2,549	-	-	15,328	107,190	0.37
Interbank and money market items	15,056	-	161	-	4,637	19,854	0.72
Liabilities payable on demand	-	-	-	-	1,248	1,248	-
Financial liabilities measured at fair value through profit or loss	4,360	1,767	3,796	-	-	9,923	2.48
Other liabilities	3,131	-	-	-	123	3,254	0.48
Total financial liabilities	111,860	4,316	3,957	-	21,336	141,469	
Effect of derivatives held for risk management	62,596	(79,738)	9,437	7,705	358,806	358,806	

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	

4 Financial risk management (Cont'd)

4.2 Market risk (Cont'd)

(a) Interest rate risk (Cont'd)

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.

Sensitivity analysis

Interest rate risk information by Internal Model Approach at 31 December are as follows:

	2020 Million Baht	2019 Million Baht
Maximum VaR during the period	100	73
Average VaR during the period	70	46
Minimum VaR during the period	48	32
VaR at the end of the period	97	68

Remark: The period for Maximum VaR, Minimum VaR and Average VaR is 60 days interval. All figures are based on 10 days VaR as used for market risk capital charge calculation.

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

	2020 Million Baht	2019 Million Baht
Net foreign currency exposure*		
US Dollar	(6,212)	(9,214)
Euro	110	(169)
Yen	(81)	(44)
Pound	251	769
Singapore Dollar	(217)	(57)
Others	(76)	11

* No non-performing loans amounting in foreign currency exposure at 31 December 2020 and 2019.

4 Financial risk management (Cont'd)

4.2 Market risk (Cont'd)

(b) Foreign exchange risk (Cont'd)

Sensitivity analysis

Foreign exchange risk information by Internal Model Approach at 31 December 2020 and 2019 is as follows:

	2020 Million Baht	2019 Million Baht
Maximum VaR during the period	14	20
Average VaR during the period	4	6
Minimum VaR during the period	1	1
VaR at the end of the period	2	20

Remark: The period for Maximum VaR, Minimum VaR and Average VaR is 60 days interval
All figures are based on 10 days VaR as used for market risk capital charge calculation.

(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.

At 31 December 2020 and 2019, there is no equity investments.

4.3 Liquidity risk

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

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

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

The Branch manages its liquidity position under the Bank of Thailand's 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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4 Financial risk management (Cont'd)

4.3 Liquidity risk (Cont'd)

A maturity analysis of financial assets and liabilities as at 31 December 2020 and 2019 was as follows:

	2020						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	-	-	-	-	-	62	62
Interbank and money market items, net	3,741	42,965	4,926	903	-	-	52,535
Financial assets measured at fair value through profit or loss	-	58	410	916	13,468	-	14,852
Derivative assets	54	2,897	4,303	25,002	13,601	-	45,857
Investments, net	-	13,825	25,269	15,866	-	-	54,960
Loans to customers and accrued interest receivable, net	-	27,916	9,941	19,376	2,021	-	59,254
Other assets	-	3,939	-	1	-	-	3,940
Total financial assets	3,795	91,600	44,849	62,064	29,090	62	231,460
Financial liabilities							
Deposits	94,795	9,846	2,549	-	-	-	107,190
Interbank and money market items	19,363	330	-	161	-	-	19,854
Liabilities payable on demand	1,248	-	-	-	-	-	1,248
Financial liabilities measured at fair value through profit or loss	-	205	1,190	5,610	2,918	-	9,923
Derivative liabilities	64	2,589	4,240	28,512	12,880	-	48,285
Other liabilities	-	3,254	-	-	-	-	3,254
Total financial liabilities	115,470	16,224	7,979	34,283	15,798	-	189,754
Liquidity gap, net	(111,675)	75,376	36,870	27,781	13,292	62	41,706
	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)	47,789	35,462	36,934	9,242	69	29,483

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Notes to the Financial Statements
For the year ended 31 December 2020

5 Classification of financial assets and liabilities

The following table analyses the carrying amounts of the financial assets and liabilities by category as at 31 December 2020.

	Fair value through profit or loss Million Baht	Designated at fair value through profit or loss Million Baht	Fair value through other comprehensive income Million Baht	Designated at fair value through other comprehensive income Million Baht	Amortised cost Million Baht	Total Million Baht
Financial assets						
Cash	-	-	-	-	62	62
Interbank and money market items, net	-	-	-	-	52,535	52,535
Financial assets measured at fair value through profit or loss	14,852	-	-	-	-	14,852
Derivatives assets	45,857	-	-	-	-	45,857
Investments, net	-	-	54,960	-	-	54,960
Loans to customers and accrued interest receivables, net	-	-	-	-	59,254	59,254
Other assets	-	-	-	-	3,940	3,940
Total financial assets	60,709	-	54,960	-	115,791	231,460
Financial liabilities						
Deposits	-	-	-	-	107,190	107,190
Interbank and money market items	-	-	-	-	19,854	19,854
Liabilities payable on demand	-	-	-	-	1,248	1,248
Financial liabilities measured at fair value through profit or loss	-	9,923	-	-	-	9,923
Derivatives liabilities	48,285	-	-	-	-	48,285
Other liabilities	-	-	-	-	3,254	3,254
Total financial liabilities	48,285	9,923	-	-	131,546	189,754

6 Offsetting of financial assets and financial liabilities

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 31 December 2020. The column 'net amount' shows the impact on the Branch's statement of financial position if all set-off rights were exercised. The 'Amounts not set off in the statement of financial position' include transactions where:

- the counterparty has an offsetting exposure with the Branch and a master netting or similar arrangement is in place with a right to set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and
- in the case of derivatives and reverse repurchase/repurchase, stock borrowing/lending and similar agreements, and cash and non-cash collateral has been received/pledged.

For risk management purposes, the net amounts of loans and advances to customers are subject to limits, which are monitored and the relevant customer agreements are subject to review and updated, as necessary, to ensure the legal right to set off remains appropriate.

	Amounts subject to enforceable netting arrangements						Amount not set off in the statement of financial position	Amounts not subject to enforceable netting agreements	Total
	Gross amounts Million Baht	Amount offset Million Baht	Net amounts in the statement of financial position Million Baht	Financial instruments Million Baht	Non-cash collateral Million Baht	Cash collateral Million Baht	Net amount Million Baht		
Financial assets									
Reverse repurchase agreement	46,928	-	46,928	46,928	-	-	-	-	46,928
Derivatives assets	32,842	-	32,842	-	-	3,131	29,711	13,015	45,857
Total financial assets	79,770	-	79,770	46,928	-	3,131	29,711	13,015	92,785
Financial liabilities									
Derivatives liabilities	28,274	-	28,274	-	-	3,720	24,554	20,011	48,285
Total financial liabilities	28,274	-	28,274	-	-	3,720	24,554	20,011	48,285

7 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

TFRS 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.

7 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.

7 Fair value of financial instruments (Cont'd)

7.1 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 values hierarchy at 31 December 2020.

	2020			
	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	7,958	6,894	-	14,852
Derivatives	7	45,850	-	45,857
Financial assets at fair value through other comprehensive income				
Debt securities	15,951	39,009	-	54,960
Total financial assets	<u>23,916</u>	<u>91,753</u>	<u>-</u>	<u>115,669</u>
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Financial liabilities designated at fair value through profit or loss	-	9,923	-	9,923
Derivatives	8	48,263	14	48,285
Total financial liabilities	<u>8</u>	<u>58,186</u>	<u>14</u>	<u>58,208</u>

Transfers between Level 1 and Level 2 fair values during the year 2020 can be summarised as follows:

	Assets	
	Fair value through profit or loss Million Baht	Fair value through other comprehensive income Million Baht
At 31 December 2020		
Transfers from Level 1 to Level 2	1,600	610
Transfers from Level 2 to Level 1	41	3,785

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

7 Fair value of financial instruments (Cont'd)

7.1 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 values 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 investments 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 values hierarchy are primarily attributable to observability of valuation inputs.

7 Fair value of financial instruments (Cont'd)

7.1 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.

7 Fair value of financial instruments (Cont'd)

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

Reconciliation of fair value measurements in Level 3 of the fair values 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 2020.

	Derivatives assets Million Baht	Derivatives liabilities Million Baht	Financial liabilities designated at fair value through profit or loss Million Baht
At 1 January 2020	15	34	312
Gains and losses recognised in profit or loss	(3)	(20)	-
Transfers out	(12)	-	(312)
At 31 December 2020	-	14	-
Unrealised gains and losses for the year included in profit or loss for assets/liabilities held at 31 December 2020	-	20	-

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

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

	Reflected in profit or loss	
	Favorable change Million Baht	Unfavorable change Million Baht
Other derivatives	1	(1)
At 31 December 2020	1	(1)

7 Fair value of financial instruments (Cont'd)

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

Reconciliation of fair value measurements in Level 3 of the fair values hierarchy (Cont'd)

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

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

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

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

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

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

7 Fair value of financial instruments (Cont'd)

7.1 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 2020. 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	-	14	Price - Market comparable approach	IR Basis	1.15%	1.37%	1.15%	1.37%
At 31 December 2020	-	14						

7 Fair value of financial instruments (Cont'd)

7.1 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 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%
Debt issued and borrowings	-	312	Model - Option model	IR Correlation	87.9%	95.4%	87.9%	95.4%
At 31 December 2019	15	346						

7 Fair value of financial instruments (Cont'd)

7.1 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.

7 Fair value of financial instruments (Cont'd)

7.2 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 values hierarchy at 31 December 2020.

	2020			
	Level 1 Million Baht	Level 2 Million Baht	Level 3 Million Baht	Total Million Baht
Financial assets				
Cash	62	-	-	62
Interbank and money market items, net	-	52,535	-	52,535
Loans to customers and accrued interest receivables	-	-	60,006	60,006
Total financial assets	<u>62</u>	<u>52,535</u>	<u>60,006</u>	<u>112,603</u>
Financial liabilities				
Deposits	-	107,190	-	107,190
Interbank and money market items	-	19,854	-	19,854
Total financial liabilities	<u>-</u>	<u>127,044</u>	<u>-</u>	<u>127,044</u>

The following table presents the Branch's financial assets and liabilities not carried at fair value by fair values 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>

7 Fair value of financial instruments (Cont'd)

7.2 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, 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.

8 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 2020 and 2019, can be summarised as follows:

	2020 Million Baht	2019 Million Baht
Assets maintained under Section 32	23,340	21,944
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	22,600	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	11,010	1,607
Total	33,610	21,707
Regulatory Capital (in million Baht)	22,600	20,100
Regulatory Capital after deducting capital add-on from Single Lending Limit (in million Baht)	22,600	20,100
Capital Adequacy Ratio (%)	20.18	17.48
Capital Adequacy Ratio after deducting capital add-on from Single Lending Limit (%)	20.18	17.48

8 Maintenance of capital fund (Cont'd)

As at 31 December 2020 and 2019, 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 2020 and 2019, 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 2020.

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.

In 2020, the Bank of Thailand approved the increase in capital of the Branch amounting from Baht 20,100 million to Baht 22,600 million being effective on 15 October 2020. The Branch transferred the amount from retained earnings with the approval from head office.

9 Interbank and money market items, net (assets)

	2020 Million Baht	2019 Million Baht
Domestic		
The Bank of Thailand and Financial Institutions Development Fund	1,971	84
Commercial banks	48,336	29,039
Other financial institutions	800	-
Add Accrued interest receivable and undue interest receivable	28	12
Less Deferred revenue	-	(2)
Total domestic	<u>51,135</u>	<u>29,133</u>
Foreign		
US Dollar	816	1,320
Euro	559	345
Other currencies	25	455
Add Accrued interest receivable and undue interest receivable	1	-
Less Deferred revenue	(1)	-
Total foreign	<u>1,400</u>	<u>2,120</u>
Total domestic and foreign	<u><u>52,535</u></u>	<u><u>31,253</u></u>

10 Financial assets measured at fair value through profit or loss

	2020
	Fair value
	Million Baht
Trading assets	
Government and state enterprise securities	11,491
Private debt instruments	3,361
Total	14,852

11 Derivatives

Derivatives held for trading

As at 31 December 2020 and 2019, fair value and notional amount of derivatives classified by type of risks are as follows:

	2020				
Type of risk	Fair value		Notional amount		Total
	Assets	Liabilities	Up to 1 year	Over 1 year	
	Million Baht	Million Baht	Million Baht	Million Baht	Million Baht
Exchange rate	15,362	15,815	362,494	285,925	648,419
Interest rate	30,470	31,455	193,385	1,020,617	1,214,002
Others					
- Credit derivative	9	-	-	1,201	1,201
- Bond	16	1,015	4,213	5,643	9,856
Total	45,857	48,285	560,092	1,313,386	1,873,478

	2019				
Type of risk	Fair value		Notional amount		Total
	Assets	Liabilities	Up to 1 year	Over 1 year	
	Million Baht	Million Baht	Million Baht	Million Baht	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

As at 31 December 2020 and 2019, proportions of the notional amount of derivative transactions, classified by counterparties, consisted of:

	2020	2019
	%	%
Counterparty		
Financial institutions	55	57
Related parties	36	34
Third parties	9	9
Total	100	100

12 Investments, net

12.1 Classification of investment in securities

	2020
	Fair value
	Million Baht
Investments in debt instruments measured at fair value through other comprehensive income	
Government and state enterprise securities	54,960
Total	54,960
Allowance for expected credit losses	7
	2019
	Fair value
	Million Baht
Trading investments	
Government and state enterprise securities	28,264
Private debt instruments	485
Total	28,749
Available-for-sale investments	
Government and state enterprise securities	51,382
Total	51,382
Total investments, net	80,131

As at 31 December 2020, investments in debt instruments measured at fair value through other comprehensive income with market values of Baht 23,340 million and Baht 12,568 million were maintained as capital fund under the Bank of Thailand's regulation and pledged with the Bank of Thailand for intraday liquidity facilities and securities requirement for settlement, respectively.

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 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.

12 Investments, net (Cont'd)

12.2 Gains on remeasurement of investments in debt instruments measured at fair value through other comprehensive income and available-for-sale investments as follows:

	2020	2019
	Fair value	Fair value
	Million Baht	Million Baht
Gains from changes in value of investments in debt instruments measured at FVOCI	381	-
Changes in value of available-for-sale investments	-	289
Total	381	289
<u>Less</u> Deferred tax	(76)	(57)
Net	305	232

13 Loans to customers and accrued interest receivables, net

13.1 Classified by type of loans

	2020	2019
	Million Baht	Million Baht
Overdrafts	812	1,239
Loans	56,109	60,747
Bills	3,007	4,417
Total loans to customers	59,928	66,403
<u>Less</u> Deferred revenue	(15)	(25)
Total loans to customers net of deferred revenue	59,913	66,378
<u>Add</u> Accrued interest receivables and undue interest receivable	129	233
Total loans to customers and accrued interest receivables	60,042	66,611
<u>Less</u> Allowance for doubtful accounts (Note 15)		
- BoT's minimum requirement - individual approach	-	(675)
- Surplus reserve	(720)	(360)
Allowance for expected credit losses (Note 14)	(68)	-
Total loans to customers and accrued interest receivables, net	59,254	65,576

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

13.2 Classified by currencies and residencies of debtors

	2020 Million Baht	2019 Million Baht
Domestic		
Baht	41,148	52,897
US Dollar	15,624	11,459
Other currencies	1,503	583
Total domestic	58,275	64,939
Foreign		
US Dollar	1,575	1,377
Other currencies	63	62
Total foreign	1,638	1,439
Total*	59,913	66,378

* Loans to customers net of deferred revenue

13.3 Classified by loan classification

	2020 Loans to customers and accrued interest receivables Million Baht
Loan classification	
Financial assets with an insignificant increase in credit risk (‘Performing’)	53,115
Financial assets with a significant increase in credit risk (‘Under-performing’)	6,879
Credit-impaired financial assets (‘Non-performing’)	48
Total*	60,042

	2019			
Loan classification	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
Surplus reserve				360
Total				1,035

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

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

13.4 Non-performing loans

As at 31 December 2020 and 2019 the Branch had non-performing loans gross ('NPLs Gross') (including financial institutions) based on the BoT's notification as follows:

	2020	2019
NPLs, gross (<i>in million Baht</i>)	48	128
Loans used for NPLs ratio calculation ⁽¹⁾ (<i>in million Baht</i>)	109,509	95,127
Percentage of total loans ⁽²⁾	0.04	0.13

⁽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 2020, allowance for expected credit losses of Baht 48 million have been provided against the Branch's non-performing loans being those classified credit-impaired financial assets (Stage 3).

As at 31 December 2019, allowance for doubtful accounts of Baht 90 million have been provided against the Branch's non-performing loans being those classified as substandard, doubtful and doubtful of loss.

14 Allowance for expected credit losses

The following tables show reconciliations from the opening to the closing balance of expected credit loss ('ECL') analysed by class of financial instruments.

	Allowance for expected credit losses				
	Financial assets with an insignificant increase in credit risk (12-mth ECL) Million Baht	Financial assets with a significant increase in credit risk (Lifetime ECL-not credit impaired) Million Baht	Credit-impaired financial assets (Lifetime ECL-credit impaired) Million Baht	Surplus reserve Million Baht	Total Million Baht
Financial assets held at amortised cost ⁽¹⁾					
As at 1 January 2020	26	17	89	900	1,032
Transfers of financial instruments:					
- Transfer to stage 2	(3)	3	-	-	-
Transfer between stages	(3)	3	-	-	-
Remeasurement	(4)	(6)	15	-	5
Newly acquired or purchased financial assets	3	5	33	-	41
Assets derecognised (including final repayments)	(9)	(3)	(20)	-	(32)
Write-offs	-	-	(69)	-	(69)
Amortisation of surplus reserve	-	-	-	(180)	(180)
As at 31 December 2020	13	16	48	720	797
Financial assets measured at fair value through other comprehensive income					
As at 1 January 2020	3	-	-	-	3
Remeasurement	1	-	-	-	1
Newly acquired or purchased financial assets	4	-	-	-	4
Assets derecognised (including final repayments)	(1)	-	-	-	(1)
As at 31 December 2020	7	-	-	-	7

⁽¹⁾ Includes ECL on financial guarantees and loan commitments

15 Allowance for doubtful accounts

Movements in the allowance for doubtful accounts for loans to customers during the year ended 31 December 2019 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

16 Right-of-use assets, net

	2020 Million Baht	2019 Million Baht
Cost	930	917
<u>Less</u> Accumulated amortisation	(561)	(542)
<u>Less</u> Losses on impairment	(269)	(269)
Total	100	106

Addition to Right-of-use assets during 2020 were Baht 20 million (2019 : Baht 8 million).

17 Deferred tax, net

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

	2020 Million Baht	2019 Million Baht
Deferred tax asset to be recovered within 12 months	39	49
Deferred tax asset to be recovered after more than 12 months	206	141
Deferred tax liability to be settled within 12 months	(388)	(449)
Deferred tax liability to be settled after more than 12 months	(64)	(67)
Deferred tax, net	(207)	(326)

17 Deferred tax, net (Cont'd)

Movements in deferred tax assets and liabilities during the year ended 31 December 2020 were as follows:

	(Charged)/ credited to			
	At 1 January 2020 Million Baht	Profit or loss (Note 40) Million Baht	Other comprehensive income (Note 40) Million Baht	At 31 December 2020 Million Baht
Deferred tax assets				
Allowance for expected credit losses	9	(5)	-	4
Provision for impairment	25	(3)	-	22
Others	156	64	(1)	219
Total	190	56	(1)	245
Deferred tax liabilities				
Investments	449	(80)	19	388
Borrowings and financial instruments	61	(14)	17	64
Others	6	(6)	-	-
Total	516	(100)	36	452
Net	(326)	156	(37)	(207)

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

	(Charged)/ credited to			
	At 1 January 2019 Million Baht	Profit or loss (Note 40) Million Baht	Other comprehensive income (Note 40) Million Baht	At 31 December 2019 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)

18 Other assets

	2020	2019
	Million Baht	Million Baht
Accrued income receivables	220	203
Margins	3,720	7,449
Others	67	212
Total	4,007	7,864

19 Deposits

19.1 Classified by type of deposits

	2020	2019
	Million Baht	Million Baht
Current	36,134	31,425
Saving	58,660	57,816
Term		
- Less than 6 months	9,837	17,885
- More than 6 months but less than 1 year	2,559	2,563
- Over 1 year	-	7
Total	107,190	109,696

19.2 Classified by currencies and residencies of depositors

	2020			2019		
	Domestic	Foreign	Total	Domestic	Foreign	Total
	Million	Million	Million	Million	Million	Million
	Baht	Baht	Baht	Baht	Baht	Baht
Baht	85,962	700	86,662	90,347	824	91,171
US Dollar	15,969	2,624	18,593	14,380	3,313	17,693
Other currencies	1,927	8	1,935	822	10	832
Total	103,858	3,332	107,190	105,549	4,147	109,696

20 Interbank and money market items (liabilities)

	2020	2019
	Million Baht	Million Baht
Domestic		
The Bank of Thailand and Financial Institutions Development Fund	161	3,800
Commercial banks	1	10,201
Finance, securities and credit foncier companies	11,050	2,953
Other financial institutions	3,134	3,840
Total domestic	14,346	20,794
Foreign		
Baht	5,281	3,690
Other currencies	227	93
Total foreign	5,508	3,783
Total domestic and foreign	19,854	24,577

21 Financial liabilities measured at fair value through profit or loss

	2020
	Million Baht
Financial liabilities designated at fair value through profit or loss	
- Bills of exchange	3,797
- Floating rate notes	6,126
Total	9,923

As at 31 December 2020, borrowings were in interest rates between 0.27% - 2.61% per annum.

The carrying amount of financial liabilities designated at fair value through profit or loss was Baht 2,838 million more than the contractual amount at maturity. The cumulative amount of change in fair value attributable to changes in credit risk was a gain of Baht 242 million presented in other comprehensive income.

22 Debt issued and borrowings

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

As at 31 December 2019, borrowings were in interest rates between 1.11% - 2.61% per annum.

23 Employee benefit obligations

Statement of financial position obligations for

	2020 Million Baht	2019 Million Baht
Long term employment benefits		
- Long service award	13	14
Post employment benefits		
- Legal severance payment plan and gratuity plan	327	314
Total	340	328
	2020 Million Baht	2019 Million Baht

For the year ended 31 December

Statement of comprehensive income:

Recognised in profit or loss

Long term employment benefits

- Long service award

	1	16
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Post employment benefits

- Legal severance payment plan and gratuity plan

	27	72
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Recognised in other comprehensive income

Actuarial gains recognised during the year

	(4)	(8)
Total	24	80

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.

23 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:

	2020 Million Baht	2019 Million Baht
Present value of unfunded obligations		
Long service award	13	14
Legal severance payment plan and gratuity plan	327	314
Statement of financial position obligations	340	328

Movement in the present value of the defined benefit obligations:

Long service award

	2020 Million Baht	2019 Million Baht
At 1 January	14	-
Expense recognised in profit or loss		
Current service costs	1	16
Benefits paid during the year	(2)	(2)
At 31 December	13	14

Legal severance payment plan and gratuity plan

	2020 Million Baht	2019 Million Baht
At 1 January	314	260
Expense recognised in profit or loss		
Current service costs	23	22
Past service costs	-	44
Interest cost on obligation	4	7
Benefits paid during the year	(10)	(11)
Actuarial gains in other comprehensive income	(4)	(8)
At 31 December	327	314

The expense is recognised in profit or loss:

	2020 Million Baht	2019 Million Baht
Other operating expenses		
- Employee expenses	28	89
Total	28	89

23 Employee benefit obligations (Cont'd)

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

	2020 Million Baht	2019 Million Baht
At 1 January	38	44
Recognised during the year	(3)	(6)
At 31 December	35	38

Principal actuarial assumptions at the reporting date:

	2020 (%)	2019 (%)
Discount rate	1.0	1.5
Future average salary increases	1	2
Pre-retirement mortality rate	Thai Mortality Ordinary Table 2017	Thai Mortality Ordinary Table 2017

As at 31 December 2020 and 2019, the impact on defined benefit obligations of key assumption changes are summarised as follows:

	2020 Million Baht	2019 Million Baht
Discount rate		
1.0% decrease	20	20
1.0% increase	(18)	(18)
Expected rate of salary increase		
1.0% decrease	(18)	(18)
1.0% increase	20	20
Turnover rate		
10% decrease in likelihood of turnover	8	8
10% increase in likelihood of turnover	(7)	(8)

Maturity analysis of benefits expected to be paid

	2020 Million Baht	2019 Million Baht
Benefits expected to be paid within 12 months	44	26
Benefits expected to be paid between 1 and 2 years	16	44
Benefits expected to be paid between 2 and 5 years	124	107
Benefits expected to be paid in more than 5 years	187	184

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.

24 Provisions

	2020 Million Baht	2019 Million Baht
Provisions (excluding contractual commitments) ⁽¹⁾		
At 1 January	45	64
Provision used	(15)	(19)
At 31 December	30	45
Contractual commitments ⁽²⁾		
At 1 January (remeasurement from the first time adoption of TFRS9)	23	-
Net change in expected credit loss provision and other movements	(14)	-
At 31 December	9	-
Total provisions	39	45

(1) The above consists of the restructuring provision relating to disposal of retail portfolio and also includes provision for contingent liabilities from litigation case.

(2) Contractual commitments include the provision for contingent liabilities in respect of financial guarantees and the expected credit loss provision on off-balance sheet guarantees and loan commitments.

25 Other liabilities

	2020 Million Baht	2019 Million Baht
Accrued interest expenses	20	66
Accrued expenses	344	479
Income tax payable	181	83
Marginal deposit	3,131	2,182
Others	960	958
Total	4,636	3,768

26 Commitments and contingent liabilities

	2020			2019		
	Baht Million Baht	Foreign currency Million Baht	Total Million Baht	Baht Million Baht	Foreign currency Million Baht	Total Million Baht
Guarantees of loans	10	439	449	8	3,749	3,757
Other guarantees	24,689	8,419	33,108	22,917	9,583	32,500
Liabilities under unmatured import bills	1	1,342	1,343	-	1,303	1,303
Letters of credit	-	757	757	23	1,770	1,793
Unused credit lines of overdrafts and credit facilities	67,779	25,814	93,593	57,404	20,647	78,051
Total	92,479	36,771	129,250	80,352	37,052	117,404

As at 31 December 2020, 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. 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.

27 Related parties

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

Relationships with significant key management personnel and related parties were as follows:

Name of entities/Personnel	Country of incorporation	Nature of relationships
Key management personnel	Thailand	Persons having authority and responsibility for planning, directing and controlling the activities of the Branch, directly or indirectly including any directs (whether executive or otherwise) of the Branch. The Branch's key management personnel consisted of: <ul style="list-style-type: none"> - 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 Private Banking - Head of Regulatory Compliance - Head of Legal - Head of Communications - Head of Human Resources
HSBC Holdings plc	England	Ultimate parent company of the Head Office
The Hongkong and Shanghai Banking Corporation Limited ('HBAP')	Hong Kong	Head Office and other branches
Other HSBC Group entities		
HSBC Bank plc	England	HSBC Holdings plc's subsidiary
HSBC 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

27 Related parties (Cont'd)

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

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

Significant transactions for the years ended 31 December 2020 and 2019 with the related parties were as follows:

	2020 Million Baht	2019 Million Baht
HBAP		
Interest income on inter-office lending	3	97
Fee and service income	100	118
Interest expense on inter-office borrowing	37	283
Fee and expenses	54	71
Head office expenses	548	532
Other expenses	42	29
Other HSBC Group entities		
Interest income	2	30
Fee and commission income	79	85
Interest expense	1	5
Fee and commission expenses	22	114
Other expenses	235	105

Significant balances with related parties as at 31 December 2020 and 2019 consisted of:

	2020 Million Baht	2019 Million Baht
<i>Interbank and money market items (assets)</i>		
HSBC Group entities		
HSBC Bank plc	663	2,012
HSBC Bank USA, N.A.	8	25
HSBC Bank Australia Limited	7	6
Others	14	4
Total	692	2,047
<i>Interbank and money market items (liabilities)</i>		
HSBC Group entities		
HSBC Bank plc	528	94
HSBC France	183	132
HSBC Bank USA, N.A.	97	40
HSBC UK Bank plc	70	153
Hang Seng Bank Limited	64	36
HSBC Bank Malaysia Berhad	22	8
HSBC Bank Australia Limited	9	77
Others	96	169
Total	1,069	709

27 Related parties (Cont'd)

Significant balances with related parties as at 31 December 2020 and 2019 consisted of: (Cont'd)

	2020 Million Baht	2019 Million Baht
Net balance of inter-office accounts with head office and other branches of the same juristic person		
HBAP		
Nostro accounts	(97)	(60)
Vostro accounts	482	352
Lending	-	(1,290)
Borrowings	10,444	2,412
Accrued expenses	82	66
Other receivables	(30)	(32)
Other payables	27	26
Total	10,908	1,474

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.

28 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.

	2020 Million Baht	2019 Million Baht
Short-term employee benefits	132	143
Post-employment benefits	7	7
Share-based payments	11	8
Total	150	158

29 Share-based payments

Income statement charge

	2020 Million Baht	2019 Million Baht
Equity-settled share-based payments		
Restricted share awards	9	12
ShareMatch	1	1
Total	10	13

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

	2020 Number	2019 Number
Outstanding at 1 January	91,017	71,380
Additions during the year	63,435	54,904
Forfeited during the year	(1,566)	-
Released during the year	(43,538)	(35,267)
Outstanding at 31 December	109,348	91,017
Weighted average fair value of awards granted (Baht)	244.93	275.53

30 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.

31 Interest income

	2020 Million Baht	2019 Million Baht
Interbank and money market items	311	573
Investments and trading transactions	365	750
Investments in debt securities	695	845
Loans	1,430	1,875
Others	36	-
Total interest income	2,837	4,043

32 Interest expense

	2020 Million Baht	2019 Million Baht
Deposits	196	531
Interbank and money market items	88	412
Contribution to Deposit Protection Agency	267	479
Borrowings	-	289
Others	32	-
Total interest expense	583	1,711

33 Net fees and service income

	2020 Million Baht	2019 Million Baht
Fees and service income		
- Acceptances, aval and guarantees	143	125
- Remittances	290	269
- Underwriting, management and consulting	11	92
- Custody	344	381
- Others	175	126
Total	963	993
Fees and service expenses		
- Remittances	58	67
- Others	124	152
Total	182	219
Net	781	774

34 Net gains on financial instruments measured at fair value through profit or loss

	2020 Million Baht
Gains (losses) on trading and foreign exchange transactions	
- Foreign currencies and foreign currency related derivatives	2,883
- Interest rate related derivatives	(836)
- Debt instruments	363
- Others	28
Total gains (losses) on trading and foreign exchange transactions	<u>2,438</u>
Gain (losses) on financial instruments designated at fair value through profit or loss	
Changes in fair value of debt issued and borrowings	162
Net losses on derecognition including interest expenses	(279)
Total gain (losses) on financial instruments designated at fair value through profit or loss	<u>(117)</u>
Total	<u><u>2,321</u></u>

35 Net gains on trading and foreign exchange transactions

	2019 Million Baht
Gain on trading and foreign exchange transactions	
- Foreign currencies and foreign currency related derivatives	1,954
- Interest rate related derivatives	(1,827)
- Debt instruments	2,347
- Others	(3)
Total	<u><u>2,471</u></u>

36 Expected credit losses

	2020 Million Baht
Investments	4
Loans to customers and accrued interest receivables	(153)
Loan commitments	(4)
Financial guarantees	(10)
Total	<u><u>(163)</u></u>

37 Bad debts, doubtful accounts expense and impairment loss

	2019
	Million Baht
Reversal of provision for doubtful accounts	
- Transactions between interbank and money markets	(1)
- Loans to customers	(15)
Total	(16)

38 Employee expenses

	2020	2019
	Million Baht	Million Baht
Wages, salaries and bonus	995	1,017
Post-employment benefits - defined benefit plans	28	88
Post-employment benefits - defined contribution plans	64	62
Others	122	162
Total	1,209	1,329

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.

39 Other expenses

	2020	2019
	Million Baht	Million Baht
Expenses allocated from Head Office	548	307
Others	410	328
Total	958	635

40 Income tax expense

Income tax expense recognised in profit or loss

	Note	2020 Million Baht	2019 Million Baht
Current tax expense			
Current year		761	221
(Over) under provided in the prior year		(24)	12
		<u>737</u>	<u>233</u>
Deferred tax expense			
Movements in temporary differences	17	(156)	421
Total income tax expense		<u>581</u>	<u>654</u>

Income tax expense recognised in other comprehensive income

	2020			2019		
	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
Investments	93	(19)	74	286	(57)	229
Changes in fair value attributable to changes in own credit risk	92	(17)	75	-	-	-
Defined benefit plans actuarial gains	4	(1)	3	8	(2)	6
Total	<u>189</u>	<u>(37)</u>	<u>152</u>	<u>294</u>	<u>(59)</u>	<u>235</u>

Reconciliation of effective tax rate

	2020		2019	
	Rate (%)	Million Baht	Rate (%)	Million Baht
Profit before income tax expense		3,143		3,169
Income tax using the Thai corporation tax rate	20.0	629	20.0	634
Expenses not deductible for tax purposes	(0.7)	(24)	0.2	8
(Over) under provided in the prior year	(0.7)	(24)	0.4	12
Total	<u>18.6</u>	<u>581</u>	<u>20.6</u>	<u>654</u>

41 Significant events during the current period

As a result of the Coronavirus Disease 2019 ('COVID-19') outbreak, the Branch has been assisting customers through various relief measures from the Bank of Thailand ('BoT'). The relief measures includes loan payment holiday for principal/ interest, soft loan as part of BoT liquidity measures for SME customers.

The Branch applies staging guideline to debtors, who make debt restructuring contract as a result from being affected by the situation impacting the Thai economy, from BoT circular letter number TorPorTor ForNorSor (23) Wor 276/2563 directive dated 28 February 2020, regarding to 'The relief programs for customers affected by Thai economic situations.' with effective date from 1 January 2020 until 31 December 2021 as following detail:

- The Branch will classify debt restructuring for debtors without non-performing loans ('non-NPL') as Stage 1 immediately. If analysing the status and business of debtors and it's clear that the debtors can comply with debt restructuring agreements without waiting for the results of debt restructuring compliance conditions, it will be considered as pre-emptive debt restructuring and not troubled debt restructuring ('TDR').
- The Branch will classify debt restructuring for debtors with non-performing loans ('NPL') as Stage 1 if the debtors can repay in accordance with the debt restructuring contract for three consecutive months or three instalment payment periods, whichever period is longer.

Regarding the impacts of results from operations, the outstanding balance of loans to customer at 31 December 2020 that the Branch have assisted amounted to Baht 108.7 million covering soft loan. To reflect the Branches' fair ECL position, the Branch has closely monitored its risk expenses and economic situation in, management overlay which is used to capture a wide range of possible effects on the ECL including variable economic scenarios.

Moreover, the BoT announced to temporarily reduce the rate of contribution from financial institutions to the FIDF submission rate from 0.46% to 0.23% per year which is effective from 1 January 2020 to 31 December 2021. The reduced rate has been reflected in the financial statements with effect from 1 January 2020.