

**HSBC BANK MALAYSIA BERHAD**  
**(Company No. 127776-V)**  
**AND ITS SUBSIDIARY COMPANIES**  
**(Incorporated in Malaysia)**

**FINANCIAL STATEMENTS – 31 DECEMBER 2007**

**Domiciled in Malaysia.**  
**Registered Office:**  
**2, Leboh Ampang,**  
**50100 Kuala Lumpur**

**HSBC BANK MALAYSIA BERHAD**  
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**BOARD OF DIRECTORS**

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Alexander Andrew Flockhart, *non-executive Chairman*  
(Appointed on 30 August 2007)

Michael Roger Pearson Smith, *non-executive Chairman*  
(Resigned on 15 June 2007)

Irene Mitchell Dorner, *Deputy Chairman and Chief Executive Officer*  
(Appointed on 1 June 2007)

Dato' Zarir Jal Cama, *Deputy Chairman and Chief Executive Officer*  
(Resigned on 1 June 2007)

Ian Douglas Francis Ogilvie, *executive Director and Deputy Chief Executive*

Douglas Jardine Flint, *non-independent non-executive Director*  
(Resigned on 1 February 2007)

Dato' Sulaiman bin Sujak, *non-independent non-executive Director*

Dato' Henry Sackville Barlow, *independent non-executive Director*

Datuk Ramli bin Ibrahim, *independent non-executive Director*

Datuk Dr Zainal Aznam bin Mohd Yusof, *independent non-executive Director*

Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem, *independent non-executive Director*

Dato' Zuraidah binti Atan, *independent non-executive Director*

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**PROFILE OF DIRECTORS**

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**Alexander Andrew Flockhart**, non-executive Chairman

Age 56. Mr Flockhart is Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited (“HSBCL”) and Global Head of Commercial Banking. As Group Managing Director Asia-Pacific, Mr Flockhart is a member of the HSBC Group Management Board. He is also a director of HSBC Bank Australia Limited and a non-executive director of HSBC Bank (China) Company Limited and Hang Seng Bank.

Mr Flockhart joined the HSBC Group in July 1974 after graduating with a LLB from Edinburgh University. His previous appointments include postings to Hong Kong, the United Arab Emirates and Qatar. From 1992 to 1994, Mr Flockhart served as the Chief Executive Officer of HSBCL in Thailand.

In January 1995, Mr Flockhart was appointed as the Deputy Managing Director of the HSBC Group’s 40 per cent-owned associate, The Saudi British Bank, which is headquartered in Riyadh, Kingdom of Saudi Arabia. He was later appointed as the Managing Director in 1997.

He held the posts of Senior Executive Vice President, Commercial Banking, HSBC Bank USA and Chairman, HSBC Bank Mexico S.A. from December 1999 to July 2002, when he ran personal and commercial banking in the USA, Panama and Mexico. He then held the positions of Group General Manager, Chairman and Chief Executive Officer of HSBC Bank Mexico S.A. from 2002 to 2006 and the Group Managing Director Latin America from 2006 to July 2007.

Mr Flockhart is a director of the VISA International Asia Pacific Regional Board and he is also a member of the Chongqing Mayor's International Economic Advisory Council.

Mr Flockhart was appointed Chairman for HSBC Bank Malaysia Berhad on 30 August 2007.

**Irene Mitchell Dorner**, Deputy Chairman and Chief Executive Officer

Age 53. Ms Dorner graduated from St. Anne’s College Oxford with MA in Jurisprudence in 1976. A Barrister by profession, Dorner first joined the banking industry as an in-house lawyer.

In 1982, she was the in-house lawyer of Samuel Montagu & Co Limited, the merchant banking arm of Midland Bank, which was later acquired by the HSBC Group. She was appointed the Chief Operating Officer of Treasury and Capital Markets of HSBC Midland in 1995, then went on to head Treasury and Capital Markets Sales in 1998. In 1999, she was appointed General Manager, Marketing of HSBC Bank plc, and was subsequently appointed as General Manager, Human Resources in 2001. She then had the responsibility for HSBC Bank plc’s branch network in the North of England, Scotland and Northern Ireland comprising some 380 branches and 3,900 staff from 2003 to 2006. Thereafter, she held the post of General Manager, Premier and Wealth Management of HSBC Bank plc until May 2007.

Ms Dorner was appointed Deputy Chairman and Chief Executive Officer for HSBC Bank Malaysia Berhad on 1 June 2007.

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*Profile of Directors (continued)*

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**Ian Douglas Francis Ogilvie**, executive Director and Deputy Chief Executive

Age 48. Mr Ogilvie obtained a MA Geography from Cambridge University. He joined the HSBC Group in 1981 as a Research and Planning Analyst and held the position of General Manager, Human Resources of HSBC Bank plc prior to his current appointment as executive Director and Deputy Chief Executive of HSBC Bank Malaysia Berhad on 1 July 2005.

During his career at HSBC he has held a wide variety of senior posts with the Group.

**Dato' Sulaiman bin Sujak**, non-independent non-executive Director

Age 73. Served as an executive Director and Adviser of HSBC Bank Malaysia Berhad for 15 years, before being appointed a non-executive Director in 2004. He graduated from the Royal Air Force College, Cranwell, England in 1958 and the Royal College of Defence Studies, London in 1973 and had served both with the Royal Air Force and the Royal Malaysian Air Force. He was the first Malaysian to be appointed as the Royal Malaysian Air Force Chief (1967-1976). He served as an Adviser of Bank Negara Malaysia (1977-1983), Commercial Director of Kumpulan Guthrie (1983-1989) and Deputy Chairman of Malaysia Airline System (1977-2001). Currently, he also sits on the board of FACB Industries Incorporated Berhad, Nationwide Express Courier Services Berhad and Cycle & Carriage Bintang Berhad.

**Dato' Henry Sackville Barlow**, independent non-executive Director

Age 63. He educated at Eton College and obtained a MA from Cambridge University. He is a former Council Member of the Incorporated Society of Planters and Honorary Secretary of the Heritage Trust of Malaysia. He is a Director of Sime Darby Berhad (formerly known as Synergy Drive Berhad) and The International and Commonwealth University of Malaysia Berhad. He was formerly Joint Managing Director of Highland and Lowlands Para Rubber Co. Ltd., being instrumental in the company's Malaysianisation process in the late 1970s and early 1980s. Dato' Barlow is a Fellow of The Institute of Chartered Accountants, England and Wales, and a keen environmentalist.

**Datuk Ramli bin Ibrahim**, independent non-executive Director

Age 67. Datuk Ramli is a Chartered Accountant from the Institute of Chartered Accountants of Australia. He is currently non-executive Director of several other public listed and unlisted companies, including MEASAT Global Berhad, Ranhill Berhad and BCT Technology Berhad. He was formerly Senior Partner of KPMG Peat Marwick Malaysia (now known as KPMG Malaysia) and executive Chairman of Kuala Lumpur Options and Financial Futures Exchange Berhad.

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*Profile of Directors (continued)*

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**Datuk Dr Zainal Aznam bin Mohd Yusof**, independent non-executive Director

Age 63. Datuk Dr Zainal holds a Bsc (Econ) from Queen's University, Belfast, Northern Ireland, MA (Development Economics) from University of Leicester, United Kingdom and Ph.D. (Economics) from Oxford University, United Kingdom. He was attached to the Economic Planning Unit of the Prime Minister's Department from 1969 to 1988. During the 1987-1988 academic year, he was a Visiting Scholar at the Harvard Institute for International Development (HIID), Harvard University (Fulbright Scholar). He has also served as a Deputy Executive Director of the Malaysian Institute of Economic Research (MIER) from 1988 to 1990. Prior to that, he was the South East Asia Regional Economist at Kleinwort Benson Research (Malaysia) Sdn Bhd.

From 1990-1994, he was the Adviser in Economics at Bank Negara Malaysia. In January 1998 he was appointed as a Member of the Working Committee of the National Economic Action Council (NEAC). He was a Commissioner of the Securities Commission from 1999 to 2004 and the Deputy Director-General of the Institute of Strategic and International Studies until 2002. Datuk Dr Zainal is also a director of Rating Agency Malaysia Berhad, Permodalan BSN Berhad, Encorp Berhad and Opus International Group plc. Datuk Dr Zainal is a well-known economist in Malaysia.

**Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem**, independent non-executive Director

Age 67. Prof. Emeritus Datuk Dr Mohamed Ariff obtained his B.A. First Class Honours and M.Ec. from the University of Malaya. He completed his Ph.D. program at the University of Lancaster, England in 1971, on a Commonwealth Scholarship.

Prof. Emeritus Datuk Dr Mohamed Ariff, a specialist in International Economics, is currently the executive Director of the Malaysian Institute of Economic Research (MIER). Previously he held the Chair of Analytical Economics at the University of Malaya where he had also served as the Dean of the Faculty of Economics and Administration. He was a Board Member of the Inland Revenue Board (IRB) and is a Board Member of National Productivity Centre (NPC). He had a brief stint in the private sector as the Chief Economist at the United Asian Bank in 1976.

**Dato' Zuraidah binti Atan**, independent non-executive Director

Age 48. Dato' Zuraidah is currently a Director of FAMA (Federal Agricultural Marketing Authority), Member (former Chairman) of the Finance Board of FAMA, and Chairman of FAMA Corporation (wholly owned business entity of FAMA). She is a Board Member of Malaysian Government's Health Promotion Board and Chairman of its Finance Board. She is also a Director of Universiti Utara Malaysia, NCB Holdings Berhad, KN Sime Logistics Sdn Bhd and Syarikat Malacca Straits Inn Sdn Bhd, representing Federal and State Governments. She is an Independent Non-Executive Director of Kenanga Unit Trust Berhad. She was previously President and Chief Executive of Affin Merchant Bank Berhad for four years until September 2003. Prior to that, she served at OCBC Bank (Malaysia) Berhad in various capacities for ten years. A lawyer by training, she obtained her LLB (Hons) from the University of Buckingham, United Kingdom in 1984 and presently, she is a Member of the Malaysian Bar. She sits on various State Governments' Investment Committees, Boards and Advisory Panels such as Melaka State Government Investment Committee and Kedah State Government Insurance Brokers. She is also a member of the Association of Bumiputra Business and Professional Women, Malaysia. Currently she serves as an Honorary Adviser to the National Cancer Society of Malaysia.

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**BOARD RESPONSIBILITY AND OVERSIGHT**

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**BOARD OF DIRECTORS**

**Composition of the Board**

At the date of this report, the Board consists of nine (9) members; comprising two (2) non-independent executive Directors, two (2) non-independent non-executive Directors and five (5) independent non-executive Directors.

The concept of independence adopted by the Board is as defined in paragraph 2.26 of Bank Negara Malaysia's Guidelines on Corporate Governance for Licensed Institutions (Revised BNM/GP1). The key requirements for independent Directors are that they do not have a substantial shareholding interest in the Bank (5% equity interest, directly or indirectly), have not been employed or have an immediate family employed in an executive position in the Bank within the past two (2) years, have not engaged in any transaction worth more than RM1 million with the Bank within the past two (2) years and generally, are independent of management and free from any business or other relationship which could interfere with the exercise of independent judgement or the ability to act in the best interest of the Bank.

There is a clear division of responsibilities at the head of the Bank to ensure a balance of authority and power. The Board is led by Mr Alexander Andrew Flockhart as the non-executive Chairman and the executive management of the Bank is led by Ms Irene Mitchell Dorner, the Chief Executive Officer.

Revised BNM/GP1 prescribes a maximum of one (1) executive Director on the Board, preferably the Chief Executive Officer. However, as there are two (2) executive Directors on the Board, that is, the Chief Executive Officer and the Deputy Chief Executive, the Bank has, on 8 December 2005, obtained Bank Negara Malaysia's approval to retain both executive Directors on the Board.

**Roles and Responsibilities of the Board**

The Board is responsible for the overall corporate governance of the Bank, including its strategic direction, establishing goals for management and monitoring the achievement of these goals. The role and function of the Board are clearly documented in a Shareholder's Mandate.

The Board has a formal schedule of matters reserved to itself for approval, which includes annual plans and performance targets, procedures for monitoring and control of operations, specified senior appointments, acquisitions and disposals above pre-determined thresholds and any substantial changes in the balance sheet management policy.

The Board carries out various functions and responsibilities laid down by Bank Negara Malaysia in guidelines and directives that are issued by Bank Negara Malaysia from time to time.

**Frequency and Conduct of Board Meetings**

The Board ordinarily meets at least six (6) times a year. During the financial year, the Board met on six (6) occasions.

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*Board Responsibility and Oversight (continued)*

**BOARD OF DIRECTORS (continued)**

**Frequency and Conduct of Board Meetings (continued)**

The Board receives reports on the progress of the Bank's business operations and minutes of meetings of Board Committees for review at each of its meetings. At these meetings, the members also consider a variety of matters including the Bank's financial results, major investment and strategic decisions and corporate governance matters. The Board also receives a number of annual presentations from each key business area, and on any other topic as they request.

The agenda for every Board meeting, together with comprehensive management reports, proposal papers and supporting documents are distributed to the Directors in advance of all Board meetings, to allow time for appropriate review and to enable full discussion at the meetings. All proceedings from the Board meetings are minuted. Minutes of every Board meeting are circulated to all Directors for their perusal prior to confirmation of the minutes at the following Board meeting.

Revised BNM/GP1 requires non-executive Directors to have a minimum attendance of at least 75% of all Board meetings.

The attendance of Directors at the Board meetings held in the financial year ended 31 December 2007 was as follows:

Name of members	Independent/ Non-Independent	Attendance and number of meetings
Alexander Andrew Flockhart	Chairman, non-independent non-executive Director	1 / 6 <sup>*</sup>
Michael Roger Pearson Smith	Chairman, non-independent non-executive Director	4 / 6 <sup>**</sup>
Irene Mitchell Dorner	Deputy Chairman and Chief Executive Officer	2 / 6 <sup>^</sup>
Dato' Zarir Jal Cama	Deputy Chairman and Chief Executive Officer	4 / 6 <sup>^^</sup>
Ian Douglas Francis Ogilvie	Executive Director and Deputy Chief Executive	6 / 6
Douglas Jardine Flint	Non-independent non-executive Director	1 / 6 <sup>#</sup>
Dato' Sulaiman bin Sujak	Non-independent non-executive Director	6 / 6
Dato' Henry Sackville Barlow	Independent non-executive Director	5 / 6
Datuk Ramli bin Ibrahim	Independent non-executive Director	6 / 6
Datuk Dr Zainal Aznam bin Mohd Yusof	Independent non-executive Director	4 / 6 <sup>##</sup>
Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem	Independent non-executive Director	5 / 6
Dato' Zuraidah binti Atan	Independent non-executive Director	6 / 6

\* Appointed on 30 August 2007

\*\* Resigned on 15 June 2007

^ Appointed on 1 June 2007

^^ Resigned on 1 June 2007

# Resigned on 1 February 2007

## Datuk Dr Zainal Aznam bin Mohd Yusof did not fulfill the minimum attendance requirement in 2007 due to a late change to the date of the Board meeting in April 2007



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*Board Responsibility and Oversight (continued)*

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**BOARD COMMITTEES**

The Board has established Board Committees as well as various Management Committees to assist the Board in the running of the Bank. The functions and Terms of Reference of the Board Committees and Management Committees, as well as authority delegated by the Board to these Committees, have been clearly defined by the Board.

The Board Committee and Management Committees in the Bank are as follows:

**Board Committees**

- Audit Committee
- Risk Management Committee
- Nominating Committee

The Risk Management Committee and Nominating Committee were established in 2006 pursuant to Revised BNM/GP1. Revised BNM/GP1 also requires the Board to establish a Remuneration Committee. However, the Bank has, on 28 April 2006, obtained BNM's exemption from this requirement.

**Management Committees**

- Executive Committee
- Credit Committee
- Asset and Liability Management Committee
- Human Resource Steering Committee
- IT Steering Committee
- Operational Risk Management Committee
- Property Committee
- Senior Succession Planning Committee
- Basel II Steering Committee
- Stress Test Steering Committee

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*Board Responsibility and Oversight (continued)*

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**AUDIT COMMITTEE**

**Membership**

The present members of the Audit Committee ('the Committee') comprise:

Datuk Ramli bin Ibrahim (Chairman)  
Dato' Sulaiman bin Sujak  
Dato' Henry Sackville Barlow  
Dato' Zuraidah binti Atan

**Meetings**

A total of four (4) Audit Committee meetings were held during the financial year. The attendance of the Directors at the Audit Committee meetings held in 2007 was as follows:

Name of members	Independent/ Non-Independent	Attendance and number of meetings
Datuk Ramli bin Ibrahim	Chairman, Independent non-executive Director	4 / 4
Dato' Henry Sackville Barlow	Independent non-executive Director	4 / 4
Dato' Sulaiman bin Sujak	Non-independent non-executive Director	4 / 4
Dato' Zuraidah binti Atan	Independent non-executive Director	4 / 4

**Terms of Reference**

The revised Terms of Reference were approved at the meetings of the Audit Committee on 29 January 2007 and Board held on 27 March 2007.

**Membership**

The Committee shall comprise not less than three independent non-executive directors.

The appointment to the Committee of members and of the Chairman shall be subject to endorsement by the Group Audit Committee.

The Board may from time to time appoint additional members to the Committee from among the non-executive directors it has determined to be independent. In the absence of sufficient independent non-executive directors, the Board may appoint individuals from elsewhere in the HSBC Group with no line or functional responsibility for the activities of HSBC Bank Malaysia Berhad (the Company) or its subsidiaries.

The Chairman of the Committee shall be an independent director and shall be appointed by the Board following election by the members of the Committee.

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*Board Responsibility and Oversight (continued)*

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**AUDIT COMMITTEE (continued)**

The Committee may invite any director, executive, external auditor or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objective.

**Meetings and Quorum**

The Committee shall meet with such frequency and at such times as it may determine. It is expected that the Committee shall meet at least four times each year.

The quorum for meetings shall be two Directors.

**Objective**

The Committee shall be accountable to the Board and shall assist the Board in meeting its responsibilities in ensuring an effective system of internal control and compliance and for meeting its external financial reporting obligations, including its obligations under applicable stock exchange listing rules, laws and regulations and shall be directly responsible on behalf of the Board for the selection, oversight and remuneration of the external auditor.

**Responsibilities of the Committee**

Without limiting the generality of the Committee's objective, the Committee shall have the following responsibilities, powers, authorities and discretion.

1. To monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them. In reviewing the Company's financial statements before submission to the Board, the Committee shall focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgemental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with applicable listing and other legal requirements in relation to financial reporting.

In regard to the above:

- (i) members of the Committee shall liaise with the Board, members of senior management and the principal financial officer and the Committee shall meet, at least once a year, with the external auditor and head of internal audit; and

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*Board Responsibility and Oversight (continued)*

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**AUDIT COMMITTEE (continued)**

- (ii) the Committee shall consider any significant or unusual items that are, or may need to be, reflected in the annual report and accounts and shall give due consideration to any matters raised by the principal financial officer, head of internal audit, head of compliance or external auditor.
  - (iii) the Committee shall ensure that the accounts are prepared and published in a timely and accurate manner with frequent reviews of the adequacy of provisions against contingencies and bad and doubtful debts.
2. To review the Company's financial and accounting policies and practices.
  3. To review the Company's internal financial controls and its internal control and risk management systems.
  4. To monitor and review the internal audit plan, the effectiveness of the internal audit function and co-ordination between the internal and external auditors, consider the major findings of internal investigations and management's response, obtain assurances that the internal audit function is adequately resourced and has appropriate standing within the Group and is free from constraint by management or other restrictions. The Committee shall approve the appointment and removal of the Head of Internal Audit and evaluate the performance and decide on the remuneration package of the Head of Internal Audit.
  5. To make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor.
  6. To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements and reports from the external auditors on their own policies and procedures regarding independence and quality control and to oversee the appropriate rotation of audit partners with the external auditor.
  7. To implement the Group policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; where required under that policy to approve in advance any non-audit services provided by the external auditor that are not prohibited by the Sarbanes-Oxley Act of 2002 (in amounts to be pre-determined by the Group Audit Committee) and the fees for any such services; to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken. For this purpose "external auditor" shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally.

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*Board Responsibility and Oversight (continued)*

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**AUDIT COMMITTEE (continued)**

8. To review the external auditor's management letter and management's response, any material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control and management's response, the external auditors' annual report on the progress of the audit and management's annual internal control report.
9. To ensure a timely response is provided to the issues raised in the external auditor's management letter.
10. To discuss with the external auditor their general approach, nature and scope of their audit and reporting obligations before the audit commences including, in particular, the nature of any significant unresolved accounting and auditing problems and reservations arising from their interim reviews and final audits, major judgemental areas (including all critical accounting policies and practices used by the Company and changes thereto), all alternative accounting treatments that have been discussed with management together with the potential ramifications of using those alternatives, the nature of any significant adjustments, the going concern assumption, compliance with accounting standards and stock exchange and legal requirements, reclassifications or additional disclosures proposed by the external auditor which are significant or which may in the future become material, the nature and impact of any material changes in accounting policies and practices, any written communications provided by the external auditor to management and any other matters the external auditor may wish to discuss (in the absence of management where necessary).
11. To review and discuss management's statement on internal control systems prior to endorsement by the Board, the effectiveness of the Company's internal control systems and procedures for compliance with the HSBC Group compliance policy and the relevant regulatory and legal requirements in each of the markets where the Company is represented and whether management has discharged its duty to have an effective internal control system.
12. To consider any findings of major investigations of internal control matters as delegated by the Board or on the Committee's initiative and management's response.
13. To receive an annual report, and other reports from time to time as may be required by applicable laws and regulations, from the principal executive officer and principal financial officer to the effect that such persons have disclosed to the Committee and to the external auditor all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which could adversely affect the Company's ability to record and report financial data and any fraud, whether material or not, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting.

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*Board Responsibility and Oversight (continued)*

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**AUDIT COMMITTEE (continued)**

14. To review such information as the Disclosure Committee (if any) may request (including reports and minutes of the Disclosure Committee) from time to time.
15. To provide to the Board such assurances as it may reasonably require regarding compliance by the Company, its subsidiaries and those of its associates for which it provides management services with all supervisory and other regulations to which they are subject.
16. To provide to the Board such additional assurance as it may reasonably require regarding the reliability of financial information submitted to it.
17. To receive from the Compliance function reports on the treatment of substantiated complaints regarding accounting, internal accounting controls or auditing matters received through the Group Disclosure Line (or such other system as the Group Audit Committee may approve) for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
18. To review regular risk management reports setting out the risks involved in the Company's business and how they are controlled and monitored by management and to review the effectiveness of the Group's risk management framework.
19. To agree the Company's policy for the employment of former employees of the external auditor, within the terms of the HSBC Group's policy.
20. Where applicable to review the composition, powers, duties and responsibilities of subsidiary companies' Audit Committees.
21. To undertake or consider on behalf of the Chairman or the Board such other related tasks or topics as the Chairman or the Board may from time to time entrust to it.
22. The Committee alone shall meet with the external auditor and with the head of internal audit at least once each year to ensure that there are no unresolved issues or concerns.
23. The Committee may appoint, employ or retain such professional advisors as the Committee may consider appropriate. Any such appointment shall be made through the secretary to the Committee, who shall be responsible for the contractual arrangements and payment of fees by the Company on behalf of the Committee.
24. The Committee shall review annually the Committee's terms of reference and its own effectiveness and recommend to the Board and Group Audit Committee any necessary changes.

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*Board Responsibility and Oversight (continued)*

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**AUDIT COMMITTEE (continued)**

25. To report to the Board on the matters set out in these terms of reference.
26. To provide half-yearly certificates to the Group Audit Committee, or to any audit committee of an intermediate holding company in the form required by the Group Audit Committee. Such certificates to include a statement that the members of the Committee are independent.
27. To review any related party transactions that may arise within the Company and the HSBC Group.
28. To investigate any matter within these terms of reference, to have full access to and co-operation by management and to have full and unrestricted access to information.

Where the Committee's monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendations to the Board on action needed to address the issue or to make improvements and shall report any such concerns to the Group Audit Committee or to any audit committee of an intermediate holding company.

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*Board Responsibility and Oversight (continued)*

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**RISK MANAGEMENT COMMITTEE**

**Membership**

The present members of the Risk Management Committee ('the Committee') comprise:

Dato' Henry Sackville Barlow (Chairman)  
Dato' Sulaiman bin Sujak  
Datuk Ramli bin Ibrahim  
Dato' Zuraidah binti Atan

**Meetings**

A total of four (4) Risk Management Committee meetings were held during the financial year. The attendance of the Directors at the Risk Management Committee meetings held in 2007 was as follows:

Name of members	Independent/ Non-Independent	Attendance and number of meetings
Dato' Henry Sackville Barlow	Chairman, Independent non-executive Director	4 / 4
Dato' Sulaiman bin Sujak	Non-independent non-executive Director	4 / 4
Datuk Ramli bin Ibrahim	Independent non-executive Director	4 / 4
Dato' Zuraidah binti Atan	Independent non-executive Director	4 / 4

**Terms of Reference**

The Terms of Reference were approved at the meeting of the Board held on 9 February 2006.

Membership

The Committee shall comprise not less than three non-executive directors. All members shall be non-executive directors.

The Chairman of the Committee shall be an independent non-executive director appointed by the Board.

The Committee may invite any director, executive or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objective.

The Committee shall be supported by executives from the Bank's Executive Committee, Asset and Liability Committee and Audit Committee, or such other persons as the Committee shall consider appropriate. The Committee Secretary shall circulate such reports and minutes of the Risk Committees as are appropriate to all members of the Committee.



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*Board Responsibility and Oversight (continued)*

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**RISK MANAGEMENT COMMITTEE (continued)**

Meetings and Quorum

The Committee shall meet with such frequency and at such times as it may determine but in any event, not less than once every quarter.

The quorum for meetings shall be two non-executive directors, including one independent non-executive director.

At all meetings of the Committee, the Chairman of the Committee, if present, shall preside. If the Chairman is absent, the members present at the meeting shall elect a chairman of the meeting, who shall be an independent non-executive director.

Objective

The purpose of the Committee is to oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risk and to ensure that the risk management process is in place and functioning.

Responsibilities of the Committee

1. Without limiting the generality of the Committee's objective, the Committee shall have the following responsibilities:
  - 1.1 To review and recommend risk management strategies, policies and risk tolerance for the Board's approval.
  - 1.2 To review and assess adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively.
  - 1.3 To ensure infrastructure, resources and systems are in place for risk management, i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independent of the Bank's risk taking activities.
  - 1.4 To review management's periodic reports on risk exposure, risk portfolio composition and risk management activities.
2. In order to be consistent with HSBC Group's global risk management strategies, where strategies and policies related to the objective of this Committee are driven by the parent company, the Committee shall:
  - 2.1 Discuss, evaluate and provide input on strategies and policies to suit local environment; and
  - 2.2 Deliberate and make the necessary recommendations on such strategies and policies to assist the Board when approving major issues and strategies.

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*Board Responsibility and Oversight (continued)*

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**RISK MANAGEMENT COMMITTEE (continued)**

3. Where major decisions related to the objective of this Committee are made by the parent company, the Committee shall evaluate the issues before making recommendations to the Board for endorsement and adoption of the decision/strategy/policy. The policies adopted shall adhere to the laws of Malaysian jurisdiction and regulations.
4. The Committee shall not be delegated with decision making powers but shall report its recommendation to the Board for decision.

**Written or Circulating Resolution**

Any resolution in writing, signed or assented to by all the members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee duly called and constituted and may consist of several documents in the like form each signed by one or more of the members of the Committee.

**Amendment**

The Committee shall from time to time review the Committees' terms of reference and its own effectiveness and recommend to the Board any necessary changes.

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*Board Responsibility and Oversight (continued)*

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**NOMINATING COMMITTEE**

**Membership**

The present members of the Nominating Committee ('the Committee') comprise:

Datuk Dr Zainal Aznam bin Mohd Yusof (Chairman)  
 Irene Mitchell Dorner  
 Dato' Sulaiman bin Sujak  
 Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem  
 Dato' Zuraidah binti Atan

**Meetings**

One meeting was held during the financial year. The attendance of the Directors at the Nominating Committee meetings held in 2007 was as follows:

Name of members	Independent/ Non-Independent	Attendance and number of meetings
Datuk Dr Zainal Aznam bin Mohd Yusof	Chairman, Independent non-executive Director	1 / 1
Irene Mitchell Dorner	Deputy Chairman and Chief Executive Officer	0 / 1*
Dato' Zarir Jal Cama	Deputy Chairman and Chief Executive Officer	1 / 1**
Dato' Sulaiman bin Sujak	Non-independent non-executive Director	1 / 1
Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem	Independent non-executive Director	1 / 1
Dato' Zuraidah binti Atan	Independent non-executive Director	1 / 1

\* Appointed on 1 June 2007; after the meeting

\*\* Resigned on 1 June 2007

**Terms of Reference**

The Terms of Reference were approved at the meeting of the Board held on 9 February 2006.

Membership

The Committee shall consist of a minimum of five members, of which at least four must be non-executive directors.

The Chairman of the Committee shall be an independent non-executive directors appointed by the Board. In order to avoid conflict of interest, a member of the Committee shall abstain from participating in discussions and decisions on matters involving him.

The Committee may invite any director, executive or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objective.

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*Board Responsibility and Oversight (continued)*

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**NOMINATING COMMITTEE (continued)**

Meetings and Quorum

The Committee shall meet with such frequency and at such times as it may determine but in any event, not less than once a year.

The quorum for meetings shall be two non-executive directors, including one independent non-executive director.

At all meetings of the Committee, the Chairman of the Committee, if present, shall preside. If the Chairman is absent, the members present at the meeting shall elect a chairman of the meeting, who shall be an independent non-executive director.

Objective

The Committee shall provide a formal and transparent procedure for the appointment of directors and Chief Executive Officer as well as assessment of effectiveness of individual directors, Board as a whole and the performance of the Chief Executive Officer and key senior management officers.

Responsibilities of the Committee

1. Without limiting the generality of the Committee's objective, the Committee shall have the following responsibilities:
  - 1.1 To establish minimum requirements for the Board, i.e. required mix of skills, experience, qualification and other core competencies required of a director. The Committee shall also be responsible for establishing minimum requirements for the Chief Executive Officer;
  - 1.2 To recommend and assess the nominees for directorship, Board committee members as well as nominees for the Chief Executive Officer. This includes assessing directors for reappointment, before an application for approval is submitted to Bank Negara Malaysia. The actual decision as to who shall be nominated should be the responsibility of the full Board;
  - 1.3 To oversee the overall composition of the Board, in terms of the appropriate size and skills, and the balance between executive directors, non-executive directors and independent directors through annual review;
  - 1.4 To recommend to the Board the removal of a director/Chief Executive Officer from the Board/management if the director/Chief Executive Officer is ineffective, errant and negligent in discharging his responsibilities;
  - 1.5 To establish a mechanism for the formal assessment on the effectiveness of the Board as a whole and the contribution of each director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the Chief Executive Officer and other key senior management officers. Annual assessment should be conducted based on an objective performance criterion. Such performance criteria should be approved by the full Board;

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*Board Responsibility and Oversight (continued)*

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**NOMINATING COMMITTEE (continued)**

- 1.6 To ensure that all directors receive an appropriate continuous training programme in order to keep abreast with the latest developments in the industry;
  - 1.7 To oversee the appointment, management succession planning and performance evaluation of key senior management officers;
  - 1.8 To recommend to the Board the removal of key senior management officers if they are ineffective, errant and negligent in discharging their responsibilities; and
  - 1.9 To assess, on an annual basis, to ensure that the directors and key senior management officers are not disqualified under section 56 of the Banking and Financial Institutions Act 1989.
2. In order to be consistent with HSBC Group's global strategies, where strategies and policies related to the objective of this Committee are driven by the parent company, the Committee shall:
    - 2.1 Discuss, evaluate and provide input on strategies and policies to suit local environment; and
    - 2.2 Deliberate and make the necessary recommendations on such strategies and policies to assist the Board when approving major issues and strategies
  3. Where major decisions related to the objective of this Committee are made by the parent company, the Committee shall evaluate the issues before making recommendations to the Board for endorsement and adoption of the decision/strategy/policy. The policies adopted shall adhere to the laws of Malaysian jurisdiction and regulations.
  4. The Committee shall not be delegated with decision making powers but shall report its recommendation to the Board for decision.

**Written or Circulating Resolution**

Any resolution in writing, signed or assented to by all the members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee duly called and constituted and may consist of several documents in the like form each signed by one or more of the members of the Committee.

**Amendment**

The Committee shall from time to time review the Committees' terms of reference and its own effectiveness and recommend to the Board any necessary changes.

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**MANAGEMENT REPORTS**

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Board meetings are structured around a pre-set agenda and reports for discussion, notation and approvals are circulated in advance of the meeting dates. To enable directors to keep abreast with the performance of the Bank, reports submitted to the Board include:

- Quarterly business progress report
- Quarterly assets and liabilities summary
- Quarterly profit and loss statement
- Quarterly key financial ratios and statistics
- Quarterly significant Bank Negara Malaysia and HSBC Group's requirements
- Quarterly Bank Negara Malaysia's benchmarking statistics
- Quarterly derivatives outstanding
- Quarterly update on Basel II and Sarbanes-Oxley projects
- Quarterly risk management reports on assets quality
- Quarterly credit advances reports
- Minutes of the monthly Executive Committee meetings held
- Minutes of the monthly Asset and Liability Management Committee meetings held
- Minutes of the Audit Committee meetings held
- Minutes of the Risk Management Committee meetings held
- Minutes of Nominating Committee meetings held
- Human resource update
- Environmental issues update
- Comparative analysis of competitor banks and competitor performance report
- Bank Negara Malaysia stress testing results

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**INTERNAL AUDIT AND INTERNAL CONTROL ACTIVITIES**

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The Board of Directors is responsible for internal control and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for the reliability of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material errors, losses or fraud.

Systems and procedures are in place to identify, control and report on the major risks including credit, changes in the market prices of financial instruments, liquidity, operational error, breaches of law or regulations, unauthorised activities and fraud. Exposure to these risks is monitored by the Asset and Liability Management Committee (ALCO), Executive Committee (EXCO), Operational Risk Committee, Audit Committee, Risk Management Committee and Board of Directors.

Responsibilities for financial performance against plan and for capital expenditure, credit and market risk exposures are delegated with limits to line management. Functional management in HSBC Group Head Office has been given responsibility to set policies, procedures and standards in the areas of finance; legal and regulatory compliance; internal audit; human resources; credit; market risk; operational risk; computer systems and operations; property management; and for certain global product lines. The Bank operates within these policies, procedures and standards set by the HSBC Group Head Office functions.

The Bank's internal audit function monitors compliance with policies and standards and the effectiveness of internal control structures across the whole Bank in conjunction with other HSBC Group Internal Audit units. The work of the internal audit function is focused on areas of greatest risk to the Bank as determined by a risk-based approach. The head of the internal audit function reports to the Audit Committee and the Head of HSBC Group Audit function for the Asia Pacific region.

The Audit Committee has kept under review the effectiveness of this system of internal control and has reported regularly to the Board of Directors. The key processes used by the Committee in carrying out its reviews include regular reports from the heads of key risk functions; the annual production of reviews of the internal control framework (RICF – a self certification process) against HSBC Group benchmarks, which cover all internal controls, both financial and non-financial; quarterly confirmation from the Chief Executive Officer that there have been no material losses, contingencies or uncertainties caused by weaknesses in internal controls; internal audit reports; external audit reports; prudential reviews; and regulatory reports.

The Audit Committee has also reviewed the annual internal audit plan to ensure adequate scope and comprehensive coverage on the audit activities, effectiveness of the audit process, adequate resource deployment for the year and satisfactory performance of the Bank's Internal Audit Unit. The Committee has reviewed the internal audit reports, audit recommendations made and management's response to these recommendations. Where appropriate, the Committee has directed action to be taken by the Bank's management team to rectify any deficiencies identified by internal audit and improve the system of internal controls based on the internal auditors' recommendations for improvements.

The Directors, through the Audit Committee, have conducted an annual review of the effectiveness of the Bank's system of internal control covering all controls, including financial, operational and compliance controls and risk management.

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**RISK MANAGEMENT**

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All of the Bank's activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The key business risks are credit risk, liquidity risk, market risk and operational risk. Market risk includes foreign exchange, interest rate and equity price risk.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and limits continually by means of reliable and up-to-date administrative and information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. Training, individual responsibility and accountability, together with a disciplined, conservative and constructive culture of control, lie at the heart of the Bank's management of risk.

The Executive Committee, Risk Management Committee and Asset and Liability Management Committee, appointed by the Board of Directors, formulate risk management policy, monitor risk and regularly review the effectiveness of the Bank's risk management policies.

The Risk Management Committee is entrusted with the responsibility to oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and functioning.

**Credit risk management**

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. It arises principally from lending, trade finance and treasury activities. The Bank has dedicated standards, policies and procedures to control and monitor all such risks.

A Credit and Risk Management structure under the Chief Credit Officer who reports to the Chief Executive Officer, is in place to ensure a more coordinated management of credit risk and a more independent evaluation of credit proposals. The Chief Credit Officer has a functional reporting line to the HSBC Group General Manager, Group Credit and Risk.

The Bank has established a credit process involving credit policies, procedures and lending guidelines which are regularly updated and credit approval authorities delegated from the Board of Directors to the Credit Committee. Excesses or deterioration in credit risk grade are monitored on a regular and ongoing basis and at the periodic, normally annual, review of the facility. The objective is to build and maintain risk assets of high quality where risk and return commensurate. Reports are produced for Executive Committee, Risk Management Committee and the Board, covering:

- risk concentrations and exposures to industry sectors;
- large customer group exposures; and
- large non-performing accounts and impairment allowances.

The Bank has systems in place to control and monitor its exposure at the customer and counterparty level. Regular audits of credit processes are undertaken by the Internal Audit function. Such audits include consideration of the completeness and adequacy of credit manuals and lending guidelines, together with an in-depth analysis of a representative sample of accounts, an overview of homogeneous portfolios of similar assets to assess the quality of the loan book and other exposures, and adherence to HSBC Group standards and policies in the extension of credit facilities.



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*Risk Management (continued)*

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**Credit risk management (continued)**

Individual accounts are reviewed to ensure that risk grades are appropriate, that credit and collection procedures have been properly followed and that, where an account evidences deterioration, impairment allowances are raised in accordance with the HSBC Group's established processes. Internal Audit will discuss with management risk ratings they consider to be inappropriate, and their subsequent recommendations for revised grades must then be assigned to the facilities concerned.

**Liquidity and funding management**

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations when they fall due, or will have to do at excessive cost. This risk can arise from mismatches in the timing of cash flows. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

The Bank maintains a diversified and stable funding base comprising core retail and corporate customer deposits and institutional balances. This is augmented by wholesale funding and portfolios of highly liquid assets. The objective of the Bank's liquidity and funding management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due and that wholesale market access is coordinated and cost effective.

The management of liquidity and funding is primarily carried out in accordance with the Bank Negara Malaysia New Liquidity Framework; and practices and limits set by the HSBC Group Management Board. The HSBC Group Management Board ('GMB') operates as a general management committee under the direct authority of the HSBC Group Board of Directors. The HSBC GMB exercises the powers, authorities and discretions of the HSBC Group Board of Directors in so far as they concern the management and day to day running of the HSBC Group in accordance with such policies and directions as the HSBC Group Board of Directors may from time to time determine. These limits vary to take account of the depth and liquidity of the local market in which we operate. The Bank maintains a strong liquidity position and manages the liquidity profile of its assets, liabilities and commitments to ensure that cash flows are appropriately balanced and all obligations are met when due.

The Bank's liquidity and funding management process includes:

- projecting cash flows and considering the level of liquid assets necessary in relation thereto;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising adverse long-term implications for the business.

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*Risk Management (continued)*

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**Market risk management**

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates, basis risk and equity prices will reduce the Bank's income or the value of its portfolios.

The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with the HSBC Group's status as a premier provider of financial products and services.

The Bank separates exposures to market risk into either trading or non-trading portfolios. Trading portfolios include those positions arising from market making and proprietary position taking. Non-trading portfolios primarily arise from the interest rate management of the Bank's retail and commercial banking assets and liabilities.

The management of market risk is principally undertaken using risk limit mandates approved by the HSBC Group Traded Credit and Market Risk Unit ('TMR'), an independent unit which develops HSBC Group's market risk management policies and measurement techniques. Market risks which arise on each product are transferred to either the Bank's Global Markets unit or to a separate book managed under the supervision of ALCO. The aim is to ensure that all market risks are consolidated within operations which have the necessary skills, tools, management and governance to manage such risks professionally. Limits are set for portfolios, products and risk types, with market liquidity being the principal factor in determining the level of limits set. The Bank has an independent market risk control function that is responsible for measuring market risk exposures in accordance with the policies defined by TMR. Positions are monitored daily and excesses against the prescribed limits are reported immediately to local senior management and HSBC Group Markets.

Market risk in the trading portfolio is monitored and controlled at both portfolio and position levels using a complementary set of techniques such as value at risk and present value of a basis point, together with stress and sensitivity testing and concentration limits. Other controls to contain trading portfolio market risk at an acceptable level include rigorous new product approval procedures and a list of permissible instruments to be traded.

Market risk in non-trading portfolios arises principally from mismatches between the future yields on assets and their funding cost as a result of interest rate changes. This market risk is transferred to Global Markets and ALCO portfolios, taking into account both the contractual and behavioural characteristics of each product to enable the risk to be managed effectively. Behavioural assumptions for products with no contractual maturity are normally based on a two-year historical trend. These assumptions are important as they reflect the underlying interest rate risk of the products and hence are subject to scrutiny from ALCO, the regional head office and TMR. The net exposure is monitored against the limits granted by TMR for the respective portfolios and, depending on the view on future market movement, economically hedged with the use of interest rate swaps within agreed limits.

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*Risk Management (continued)*

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**Market risk management (continued)**

*Value at risk ('VAR')*

One of the principal tools used by the Bank to monitor and limit market risk exposure is VAR. VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a 99 per cent level of confidence. The VAR models used by the Bank are predominantly based on historical simulation. The historical simulation models derive plausible future scenarios from historical market rate time series, taking account of inter-relationships between different markets and rates, for example between interest rates and foreign exchange rates. Potential market movements are calculated with reference to market data from the last two years. Historical market rates and prices are calculated with reference to foreign exchange rates, interest rates, equity prices and the associated volatilities. VAR is calculated for a one-day holding period.

The Bank routinely validates the accuracy of its VAR models by back-testing the actual daily profit and loss results, adjusted to remove non-modeled items such as fees and commission, against the corresponding CAR numbers. Statistically, the Bank would expect to see losses in excess of VAR only one percent of the time over a one-year period. The actual number of excesses over this period can therefore be used to gauge how well the models are performing.

Although a valuable guide to risk, VAR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a 1-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a 1-day holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence;
- VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The Bank recognises these limitations by augmenting its VAR limits with other position and sensitivity limit structures. Stress tests are produced on a monthly basis based on the HSBC Group's stress-testing parameters, and on a quarterly basis based on Bank Negara Malaysia's parameters to determine the impact of changes in interest rates, exchange rates and other main economic indicators on the Bank's profitability and capital adequacy. The stress-testing provides ALCO with an assessment of the financial impact of identified extreme events on the market risk exposures of the Bank.

Derivative financial instruments (principally interest rate swaps) are used for hedging purposes in the management of asset and liability portfolios and structured positions. This enables the Bank to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of the assets and liabilities.

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*Risk Management (continued)*

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**Operational risk management**

Operational risk is the risk of loss arising from fraud, unauthorised activities, error, omission, inefficiency, systems failure or external events. It is inherent to every business organisation and covers a wide spectrum of issues.

The Bank manages this risk through a control-based environment in which processes are documented, authorisation is independent and transactions are reconciled and monitored. This is supported by an independent programme of periodic reviews undertaken by Internal Audit, and by monitoring external operational risk events, which ensure that the Bank stays in line with best practice and takes account of lessons learned from publicised operational failures within the financial services industry.

The Bank adheres to the HSBC Group standard on operational risk. This standard explains how HSBC manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events and implementing any additional procedures required for compliance with local statutory requirements. The standard covers the following:

- operational risk management responsibility is assigned at senior management level within the business operation;
- information systems are used to record the identification and assessment of operational risks and generate appropriate, regular management reporting;
- operational risks are identified by assessments covering operational risks facing each business and risk inherent in processes, activities and products. Risk assessment incorporates a regular review of identified risks to monitor significant changes;
- operational risk loss data is collected and reported to senior management. Aggregate operational risk losses are recorded and details of incidents above a materiality threshold are reported to the Operational Risk Management Committee, Audit Committee and Risk Management Committee; and
- risk mitigation, including insurance, is considered where this is cost-effective.

The Bank maintains and tests contingency facilities to support operations in the event of disasters. Additional reviews and tests are conducted in the event that the Bank is affected by a business disruption event to incorporate lessons learned in the operational recovery from those circumstances.

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**RATING BY EXTERNAL RATING AGENCIES**

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Details of the Bank's ratings are as follows:

<b>Rating Agency</b>	<b>Date</b>	<b>Rating Classification</b>	<b>Rating Received</b>
Moody's Investors Service	Dec 2007	- Financial strength rating - Local currency deposits - Foreign currency deposits - Foreign currency debts - Outlook	C- Aa3 A3 A3 Stable
Rating Agency Malaysia Berhad	June 2007	- Long term - Short term - Subordinated bonds - Outlook	AAA P1 AA1 Stable

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**DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007**

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The directors have pleasure in submitting their report and the audited financial statements of the Bank and of the group for the year ended 31 December 2007.

**Principal Activities**

The principal activities of the Bank are banking and related financial services which also include Islamic banking business.

The principal activities of the subsidiary companies are as disclosed in Note 11 to the financial statements.

There have been no significant changes in these activities during the year.

**Results**

	<i>Group and Bank</i>
	<b>RM'000</b>
Profit before taxation and zakat	<b>1,031,619</b>
Taxation and zakat	<b>(295,032)</b>
Profit after taxation and zakat	<b>736,587</b>

**Dividends**

Since the end of the previous financial year, the Bank paid a final dividend of 303% less tax totalling RM250 million as proposed in the previous year's directors' report. The Bank also paid an interim dividend of 239% less tax amounting to RM200 million in respect of financial year 2007.

The directors now recommend a final dividend of 299% less tax totalling RM250 million in respect of the current financial year on the fully issued and paid-up ordinary shares of the Bank.

**Reserves and Provisions**

There were no material transfers to or from reserves or provisions during the year other than those disclosed in the financial statements.

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*Directors' Report (continued)*

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**Bad and Doubtful Debts and Financing**

Before the financial statements of the Bank and of the group were made out, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and financing, and satisfied themselves that all known bad debts had been written off and adequate allowance made for doubtful debts and financing.

At the date of this report, the directors are not aware of any circumstances which would render the amount written off for bad debts, or the amount of the allowance for doubtful debts, in the financial statements of the Bank and of the group inadequate to any substantial extent.

**Current Assets**

Before the financial statements of the Bank and of the group were made out, the directors took reasonable steps to ascertain that any current assets, other than debts and financing, which were unlikely to be realised in the ordinary course of business at their value as shown in the accounting records of the Bank and of the group have been written down to an amount which they might be expected to realise.

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Bank and of the group misleading.

**Valuation Methods**

At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing methods of valuation of assets or liabilities in the financial statements of the Bank and of the group misleading or inappropriate.

**Contingent and Other Liabilities**

At the date of this report there does not exist:

- a any charge on the assets of the Bank or of the group which has arisen since the end of the financial year which secures the liabilities of any other person, or
- b any contingent liability in respect of the Bank or of the group that has arisen since the end of the financial year other than in the ordinary course of business.

No contingent or other liability of the Bank or of the group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may affect the ability of the Bank or of the group to meet their obligations as and when they fall due.

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*Directors' Report (continued)*

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**Change of Circumstances**

At the date of this report, the directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Bank and of the group, that would render any amount stated in the financial statements misleading.

**Items of an Unusual Nature**

Except as disclosed in the financial statements, the results of the operations of the Bank and of the group for the financial year were not, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Bank and of the group for the current financial year in which this report is made.

**Business Strategy During the Year**

Despite the slowdown in US economy due to the sub-prime crisis, the Malaysian economy continues to remain resilient. The government is confident that an overall 6.0% economic growth in 2007 will be achieved, supported by strong domestic demand and robust performance in services and construction sectors.

The Bank continued to focus on its organic growth strategies in all business segments. Various customer-focused initiatives, such as implementing a new branch service platform program and various service transformation projects, were rolled out aiming to improve customers' banking experience. The Bank invested substantially in human capital and technology during the year to enhance service delivery, streamline the banking processes and optimize operational efficiency.

Rating Agency Malaysia has reaffirmed the Bank's AAA/P1 ratings, reflecting our robust asset quality and strong financial standing. The Bank continues to win recognition with various awards in 2007 including:

1. **Best Bank in Malaysia** - *The Asset Triple A Awards 2007 (fifth consecutive year)*
2. **Best Debt House in Malaysia** - *The Asset Triple A Awards 2007*
3. **Best Retail Bank in Malaysia** - *The Asian Banker*
4. **Best Foreign Bank in Malaysia** - *Finance Asia (third consecutive year)*
5. **Best Sub-Custodian Bank in Malaysia 2007** - *Global Finance (fifth consecutive year)*
6. **Best Foreign Exchange Bank in Malaysia** - *Global Finance*
7. **Best Bank Award for 2007** - *Global Finance*
8. **Best Corporate / Institutional Internet Bank in Malaysia** - *Global Finance*
9. **Industry Recognition Award** – *RAM League Award*
10. **Top Underwriter/Arranger for Syndicated Loans in Malaysia** – *Bloomberg*
11. **Islamic Products House of the Year** - *Asia Risk*
12. **Best Integrated Media Campaign**  
- *Media Specialists Association's (MSA) Malaysian Media Awards 2007*



**HSBC BANK MALAYSIA BERHAD**  
**(Company No. 127776-V)**  
**AND ITS SUBSIDIARY COMPANIES**  
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*Directors' Report (continued)*

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**Business Strategy During the Year (continued)**

Despite stiff market competition, retail banking grew steadily as a result of strategies relating to sales and marketing, improving customer services and enhancing staff productivity. In conjunction with the HSBC Premier re-launch, the Bank introduced an extensive range of high quality and personalized banking services for its customers, particularly international banking services. The growth in the Premier customer base leveraged HSBC's global Premier network.

In corporate banking, the Bank continued to capitalize on the competitive advantage of its global network to assist customers in cross border financing and international trade. With the ability to leverage the vast experience and resources of HSBC Group, the Bank developed and offered innovative and comprehensive financial solutions to its customers, including various hedging products to assist customers to manage their business risk more efficiently. The Bank maintained its lead in the market for foreign exchange and interest rate derivatives. In the debt capital market, the Bank maintained its market leadership position as the No.1 foreign bookrunner for Malaysian Bonds.

The Bank was awarded the best sub-custodian in Malaysia for the 5<sup>th</sup> consecutive year by Global Finance and the Bank was also the first custodian to be appointed as a lending agent under the approved stock borrowing and lending framework by Bursa Malaysia (Securities) Clearing Sdn. Bhd.

The Bank's gross NPL ratio improved to 1.6% from 2.2% last year, benefiting from the implementation of the risk identification database management system to enhance the corporate risk surveillance capabilities and also the sale of a non-performing mortgage portfolio in October 2007. On Basel II compliance, all system upgrades supporting the standardised approach have been completed.

In 2007, the Bank successfully launched its RM1 billion tier-2 subordinated bonds. It was assigned a long-term rating of AA1 by RAM Rating Services Berhad, reflecting the Bank's sustainable financial strength.

The Bank continued to make a significant commitment to corporate and social responsibility (CSR) through four major CSR segments, i.e. Environment, Education, Community and Art. It contributed to various education, community and charity programmes, including sponsoring NGOs on environmental research projects.

**Outlook For 2008**

The regional economy is expected to remain positive supported by the continued strength in the emerging economies in Asia, despite rising concerns over surging fuel prices and the possibility of further deterioration in the US housing market. Amidst this backdrop, the Malaysian economy is expected to continue to grow in 2008 supported by strong local consumer demand and significant investment growth. Large government projects are expected to progress in 2008 and this will boost infrastructure spending and business investment.

**HSBC BANK MALAYSIA BERHAD**  
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*Directors' Report (continued)*

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**Outlook For 2008 (continued)**

The local finance market is expected to remain flush with ample liquidity resulting in intense competition within the banking industry and pressure in margins. Nevertheless, there will be greater business opportunities with the progressive liberalization of the finance sector by the government and the roll out of the government projects under the 9<sup>th</sup> Malaysian Plan. Continued volatility in foreign exchange and interest rates will facilitate higher transaction volumes on both vanilla and complex derivative products and the Bank is well positioned to capture these opportunities.

Apart from focusing on retail core products (i.e. mortgage, credit cards and personal installment loans), the Bank will continue to expand its wealth management, insurance and retirement planning product range and services during the year. The Bank will grow more aggressively in the Premier segment by providing comprehensive, joined-up international banking and wealth management services for the affluent and internationally oriented customers.

The Bank obtained Central Bank's approval in 2007 for setting up an Islamic subsidiary which will be launched in 2008. With this license, the Bank is able to grow its Islamic banking business further, extend its geographical reach and explore new avenues of income.

The corporate bank will continue to build and deepen customer relationships as well as to develop innovative and valued added products for customers. The Bank will leverage on the enhanced technologies and capabilities of business internet banking, telephone banking and internet trade services to provide business solutions to meet customers' needs.

A key initiative in 2008 will be to retain and source talent for the Bank as well as to continue investing in human capital and technology, aiming to improve the customer service quality, operational efficiency and productivity with the objective of becoming the most preferred bank in Malaysia.

**HSBC BANK MALAYSIA BERHAD**  
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*Directors' Report (continued)*

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**Directors and Their Interests in Shares**

The names of the directors of the Bank in office since the date of the last report and at the date of this report are:

Alexander Andrew Flockhart (appointed on 30 August 2007)  
Michael Roger Pearson Smith (resigned on 15 June 2007)  
Irene Mitchell Dorner (appointed on 1 June 2007)  
Dato' Zarir Jal Cama (resigned on 1 June 2007)  
Ian Douglas Francis Ogilvie  
Douglas Jardine Flint (resigned on 1 February 2007)  
Dato' Sulaiman bin Sujak  
Dato' Henry Sackville Barlow  
Datuk Ramli bin Ibrahim  
Datuk Dr Zainal Aznam bin Mohd Yusof  
Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem  
Dato' Zuraidah binti Atan

In accordance with the Articles of Association, Datuk Dr Zainal Aznam bin Mohd Yusof and Dato' Zuraidah binti Atan retire from the Board at the Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 84 of the Articles of Association, Mr Alexander Andrew Flockhart and Ms Irene Mitchell Dorner who have been appointed since the last Annual General Meeting now retire, and being eligible, offer themselves for re-election.

In accordance with Section 129(2) of the Companies Act, 1965, Dato' Sulaiman bin Sujak being over seventy years (70) of age, retires at the Annual General Meeting, and being eligible, offers himself for reappointment in accordance with Section 129(6) of the Companies Act, 1965.

**HSBC BANK MALAYSIA BERHAD**  
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*Directors' Report (continued)*

**Directors and Their Interests in Shares (continued)**

According to the register of directors' shareholdings maintained by the Bank in accordance with Section 134 of the Companies Act, 1965, the directors holding office at year end (including the spouses or children of the Directors) who have beneficial interests in the shares of related corporations are as follows:

Name	Balance at 1.1.2007 (or at date of appointment)	Number of Shares		Balance at 31.12.2007
		Bought	(Sold)	
<b>HSBC Holdings plc</b>				
<b>Ordinary shares of USD0.50</b>				
Alexander Andrew Flockhart	129,008	1,248 (A)	-	130,256
Irene Mitchell Dorner	29,608	-	-	29,608
Ian Douglas Francis Ogilvie	13,183	23,623 (B)	-	36,806
Dato' Sulaiman bin Sujak	45,427	1,670 (A)	-	47,097
Dato' Henry Sackville Barlow	990,000 *	-	(110,000)	880,000 *

(A) *Shares were acquired through scrip dividends*

(B) *Shares were acquired through scrip dividends and purchases, and 20,168 shares were registered in spouse's name.*

*\* Indirect interest held through Majedie Investments plc*

Mr Michael Roger Pearson Smith, a former director of the Bank, acquired 42,868 ordinary shares through scrip dividends and vesting of share plan awards during the financial year prior to his resignation. As of the date of his resignation of 15 June 2007, he held 186,668 ordinary shares.

Dato' Zarir Jal Cama, a former director of the Bank, acquired 29,717 ordinary shares during the financial year prior to his resignation. As of the date of his resignation of 1 June 2007, he held 258,364 ordinary shares.

Mr Douglas Jardine Flint, a former director of the Bank, acquired 864 ordinary shares through purchases, scrip dividends and reinvestment of dividends during the financial year prior to his resignation. As of the date of his resignation of 1 February 2007, he held 105,798 ordinary shares.

**HSBC BANK MALAYSIA BERHAD**  
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*Directors' Report (continued)*

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**Directors and Their Interests in Shares (continued)**

Name	Number of Shares				
	Awards held at 1.1.2007 (or at date of appointment)	Awards made during year *	Awards forfeited during the year	(Awards vested during the year)	Awards held at 31.12.2007
<b>HSBC Holdings plc</b>					
<b>Restricted Share Plan</b>					
Alexander Andrew Flockhart	26,978	261	-	-	27,239
Irene Mitchell Dorner	14,694	-	-	-	14,694
Ian Douglas Francis Ogilvie	65,646	10,574	# (15,281)	(10,268)	50,671
Dato' Sulaiman bin Sujak	6,118	-	-	-	6,118

\* *Includes scrip dividends*

# *Shares forfeited under the Restricted Share Plan*

Mr Michael Roger Pearson Smith, a former director of the Bank, was awarded 2,204 shares, had 51,543 shares forfeited and 37,874 shares vested during the financial year prior to his resignation. As of the date of his resignation of 15 June 2007, he had been awarded 53,462 shares under the Restricted Share Plan.

Dato' Zarir Jal Cama, a former director of the Bank, was awarded 16,503 shares, had 28,753 shares forfeited and 22,723 shares vested during the financial year prior to his resignation. As of the date of his resignation of 1 June 2007, he held 133,246 shares under the Restricted Share Plan.

Mr Douglas Jardine Flint, a former director of the Bank, was awarded 2,850 shares during the financial year prior to his resignation. As of the date of his resignation of 1 February 2007, he held 359,300 shares under the Restricted Share Plan.

**HSBC BANK MALAYSIA BERHAD**  
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*Directors' Report (continued)*

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**Directors and Their Interests in Shares (continued)**

Name	Number of Shares				
	Awards held at 1.1.2007 (or at date of appointment)	Awards made during year <sup>^</sup>	Awards forfeited during the year	(Awards vested during the year)	Awards held at 31.12.2007
<b>HSBC Holdings plc</b>					
<b>HSBC Share Plan</b>					
Alexander Andrew Flockhart	242,171	53,001	-	-	295,172
Irene Mitchell Dorner	28,164	-	-	-	28,164

<sup>^</sup> Includes scrip dividends

Mr Michael Roger Pearson Smith, a former director of the Bank, was awarded 116,472 shares during the financial year prior to his resignation. As of the date of his resignation of 15 June 2007, he had been awarded 281,574 shares under the HSBC Share Plan.

Mr Douglas Jardine Flint, a former director of the Bank, was awarded 2,823 shares during the financial year prior to his resignation. As of the date of his resignation of 1 February 2007, he held 355,864 shares under the HSBC Share Plan.

Name	Number of Shares				
	Balance at 1.1.2007 (or at date of appointment)	Granted	(Exercised)	(Lapsed)	Balance at 31.12.2007
<b>Options over HSBC Holdings plc Shares</b>					
Alexander Andrew Flockhart	22,500	-	-	-	22,500
Irene Mitchell Dorner	2,247	-	-	-	2,247
Ian Douglas Francis Ogilvie	34,437	-	-	-	34,437

Dato' Zarir Jal Cama, a former director of the Bank, held 390 options as of the date of his resignation of 1 June 2007.

Mr Douglas Jardine Flint, a former director of the Bank, held 2,617 options as of the date of his resignation of 1 February 2007.

**HSBC BANK MALAYSIA BERHAD**  
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*Directors' Report (continued)*

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**Directors' Benefits**

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full-time employee of the Bank or of a related company) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangements to which the Bank is a party whereby Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate, except for:

- i Directors who were granted the option to subscribe for shares in the ultimate holding company, HSBC Holdings plc, under Executive/Savings-Related Share Option Schemes at prices and terms as determined by the schemes, and
- ii Directors who were conditionally awarded shares of the ultimate holding company, HSBC Holdings plc, under its Restricted Share Plan/HSBC Share Plan.

**Ultimate Holding Company**

The Directors regard HSBC Holdings BV, a company incorporated in the Netherlands, and HSBC Holdings plc, a company incorporated in England, as the immediate and ultimate holding companies of the Bank, respectively.

**Auditors**

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed in accordance with a resolution of the directors:

.....Director  
**IRENE MITCHELL DORNER**

.....Director  
**IAN DOUGLAS FRANCIS OGILVIE**

Kuala Lumpur, Malaysia  
31 January 2008

**HSBC BANK MALAYSIA BERHAD**  
**(Company No. 127776-V)**  
**AND ITS SUBSIDIARY COMPANIES**  
**(Incorporated in Malaysia)**

**DIRECTORS' STATEMENT**

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In the opinion of the directors:

We, Irene Mitchell Dorner and Ian Douglas Francis Ogilvie, being two of the directors of HSBC Bank Malaysia Berhad, do hereby state on behalf of the directors that, in our opinion, the financial statements set out on pages 42 to 108 are drawn up in accordance with the provision of the Companies Act, 1965 and applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board as modified by Bank Negara Malaysia's guidelines so as to give a true and fair view of the state of affairs of the Bank and of the group as at 31 December 2007 and of the results and cash flows of the Bank and of the group for the year ended on that date.

Signed at Kuala Lumpur, Malaysia this 31 January 2008.

In accordance with a resolution of the directors:

.....Director  
**IRENE MITCHELL DORNER**

.....Director  
**IAN DOUGLAS FRANCIS OGILVIE**



**HSBC BANK MALAYSIA BERHAD**  
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**STATUTORY DECLARATION**

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I, Baldev Singh s/o Gurdial Singh, being the officer primarily responsible for the financial management of HSBC Bank Malaysia Berhad, do solemnly and sincerely declare that, to the best of my knowledge and belief, the financial statements set out on pages 42 to 108 are correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed

BALDEV SINGH s/o GURDIAL SINGH at KUALA LUMPUR

in WILAYAH PERSEKUTUAN, MALAYSIA this 31st day of January 2008.

.....

BEFORE ME:

.....  
Signature of Commissioner for Oaths

**HSBC BANK MALAYSIA BERHAD**  
**(Company No. 127776-V)**  
**AND ITS SUBSIDIARY COMPANIES**  
**(Incorporated in Malaysia)**

**REPORT OF THE AUDITORS**  
**TO THE MEMBERS OF HSBC BANK MALAYSIA BERHAD**

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We have audited the financial statements set out on pages 42 to 108. The preparation of the financial statements is the responsibility of the HSBC Bank Malaysia Berhad's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board as modified by Bank Negara Malaysia's guidelines so as to give a true and fair view of:
  - i) the state of affairs of the Group and of the Bank as at 31 December 2007 and the results of their operations and cash flows for the year ended on that date; and
  - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and the Bank;

and

- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the said Act.

**HSBC BANK MALAYSIA BERHAD**  
**(Company No. 127776-V)**  
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*Report of the Auditors (continued)*

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We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the Bank's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The audit reports on the financial statements of the subsidiary companies were not subject to any qualification and did not include any comment made under Sub-section (3) of Section 174 of the Act.

**KPMG**  
Firm Number: AF 0758  
Chartered Accountants

**SIEW CHIN KIANG @ SEOW CHIN KIANG**  
Partner  
Approval Number: 2012/11/08(J)

Kuala Lumpur, Malaysia  
31 January 2008

**HSBC BANK MALAYSIA BERHAD**  
**(Company No. 12776-V)**  
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**BALANCE SHEET AS AT 31 DECEMBER 2007**

	<i>Note</i>	<i>Group</i>		<i>Bank</i>	
		2007	2006	2007	2006
		RM'000	RM'000	RM'000	RM'000
<b>Assets</b>					
Cash and short term funds	3	11,321,351	6,114,345	11,321,351	6,114,345
Securities purchased under resale agreements		1,858,579	2,273,539	1,858,579	2,273,539
Deposits and placements with banks and other financial institutions	4	1,448,953	1,989,882	1,448,953	1,989,882
Securities held-for-trading	5	1,236,193	795,937	1,236,193	795,937
Securities available-for-sale	6	4,272,517	3,806,463	4,272,517	3,806,463
Loans, advances and financing	7	26,007,124	24,343,937	26,007,124	24,343,937
Other assets	9	897,653	578,089	897,653	578,089
Statutory deposits with Bank Negara Malaysia	10	704,847	698,648	704,847	698,648
Investments in subsidiary companies	11	-	-	21	21
Prepaid lease payments	12	20,890	21,494	20,890	21,494
Property, plant and equipment	13	258,290	281,893	258,290	281,893
Intangible assets	14	41,869	29,172	41,869	29,172
Deferred tax assets	15	69,675	69,330	69,675	69,330
<b>Total Assets</b>		<b>48,137,941</b>	<b>41,002,729</b>	<b>48,137,962</b>	<b>41,002,750</b>
<b>Liabilities</b>					
Deposits from customers	16	36,173,674	31,970,515	36,173,695	31,970,536
Deposits and placements of banks and other financial institutions	17	4,583,066	1,786,019	4,583,066	1,786,019
Obligations on securities sold under repurchase agreements		-	1,660,739	-	1,660,739
Bills and acceptances payable		627,730	490,055	627,730	490,055
Other liabilities	18	1,815,550	1,351,441	1,815,550	1,351,441
Recourse obligation on loans sold to Cagamas Berhad		759,101	899,751	759,101	899,751
Provision for taxation and zakat	19	57,569	31,278	57,569	31,278
Subordinated bonds	20	1,000,000	-	1,000,000	-
<b>Total Liabilities</b>		<b>45,016,690</b>	<b>38,189,798</b>	<b>45,016,711</b>	<b>38,189,819</b>
<b>Shareholders' Funds</b>					
Share capital	21	114,500	114,500	114,500	114,500
Reserves	22	2,756,751	2,448,431	2,756,751	2,448,431
Proposed dividend		250,000	250,000	250,000	250,000
<b>Shareholders' funds</b>		<b>3,121,251</b>	<b>2,812,931</b>	<b>3,121,251</b>	<b>2,812,931</b>
<b>Total Liabilities and Shareholders' Funds</b>		<b>48,137,941</b>	<b>41,002,729</b>	<b>48,137,962</b>	<b>41,002,750</b>
Commitments and Contingencies	32	76,966,309	60,087,067	76,966,309	60,087,067

*The financial statements were approved and authorised for issue by the Board of Directors on 31 January 2008.*

*The accompanying Notes form an integral part of the Financial Statements.*

**HSBC BANK MALAYSIA BERHAD**  
**(Company No. 127776-V)**  
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**INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007**

	<i>Note</i>	<i>Group and Bank</i>	
		<b>2007</b>	2006
		<b>RM'000</b>	RM'000
Revenue		<b>3,220,328</b>	2,831,088
Interest income	23	<b>2,000,148</b>	1,763,687
Interest expense	24	<b>(886,882)</b>	(773,254)
Net interest income		<b>1,113,266</b>	990,433
Other operating income	25	<b>869,089</b>	761,855
Income from Islamic banking operations	40 (i)	<b>231,426</b>	178,801
Operating income		<b>2,213,781</b>	1,931,089
Other operating expenses	26	<b>(956,790)</b>	(875,215)
Profit before allowance		<b>1,256,991</b>	1,055,874
Allowance for losses on loans and financing	27	<b>(225,372)</b>	(106,812)
Profit before taxation and zakat		<b>1,031,619</b>	949,062
Taxation and zakat	28	<b>(295,032)</b>	(261,656)
Profit attributable to shareholders		<b>736,587</b>	687,406
Earnings per RM0.50 share			
- basic / diluted	29	<b>321.7 sen</b>	300.2 sen
Dividends per RM0.50 ordinary share (net)			
- interim dividend paid		<b>87.3 sen</b>	65.5 sen
- proposed		<b>109.2 sen</b>	109.2 sen
		<b>196.5 sen</b>	174.7 sen

*The accompanying Notes form an integral part of the Financial Statements.*

**HSBC BANK MALAYSIA BERHAD**  
(Company No. 127776-V)  
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**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007**

	<i>Group and Bank</i>									
	← <i>Non-distributable</i> →				→ <i>Distributable</i>					
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Revaluation reserve</i>	<i>Capital redemption reserve</i>	<i>Available- for-sale reserve</i>	<i>Retained profits</i>	<i>Total reserves</i>	<i>Proposed dividend</i>	<i>Total</i>
<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Balance as at 1 January 2006	114,500	741,375	114,500	118,966	190,000	15,399	972,587	2,152,827	150,000	2,417,327
Net unrealised gains on revaluation	-	-	-	-	-	15,388	-	15,388	-	15,388
Net gains transferred to income statement	-	-	-	-	-	(7,190)	-	(7,190)	-	(7,190)
Net gains recognised directly in equity	-	-	-	-	-	8,198	-	8,198	-	8,198
Net profit for the year	-	-	-	-	-	-	687,406	687,406	-	687,406
Total recognised income and expense for the year	-	-	-	-	-	8,198	687,406	695,604	-	695,604
Dividend paid - 2005 final	-	-	-	-	-	-	-	-	(150,000)	(150,000)
Dividend paid - 2006 interim	-	-	-	-	-	-	(150,000)	(150,000)	-	(150,000)
Proposed dividend - 2006 final	-	-	-	-	-	-	(250,000)	(250,000)	250,000	-
Balance as at 31 December 2006	114,500	741,375	114,500	118,966	190,000	23,597	1,259,993	2,448,431	250,000	2,812,931
Balance as at 1 January 2007	114,500	741,375	114,500	118,966	190,000	23,597	1,259,993	2,448,431	250,000	2,812,931
Deferred tax adjustment on revaluation reserve	-	-	-	3,983	-	-	-	3,983	-	3,983
Net unrealised gains on revaluation	-	-	-	-	-	32,557	-	32,557	-	32,557
Transfer to retained profit on realisation of assets	-	-	-	(180)	-	-	180	-	-	-
Net gains transferred to income statement	-	-	-	-	-	(14,807)	-	(14,807)	-	(14,807)
Net gains recognised directly in equity	-	-	-	3,803	-	17,750	180	21,733	-	21,733
Net profit for the year	-	-	-	-	-	-	736,587	736,587	-	736,587
Total recognised income and expense for the year	-	-	-	3,803	-	17,750	736,767	758,320	-	758,320
Dividend paid - 2006 final	-	-	-	-	-	-	-	-	(250,000)	(250,000)
Dividend paid - 2007 interim	-	-	-	-	-	-	(200,000)	(200,000)	-	(200,000)
Proposed dividend - 2007 final	-	-	-	-	-	-	(250,000)	(250,000)	250,000	-
Balance as at 31 December 2007	114,500	741,375	114,500	122,769	190,000	41,347	1,546,760	2,756,751	250,000	3,121,251

*The accompanying Notes form an integral part of the Financial Statements.*

**HSBC BANK MALAYSIA BERHAD**  
**(Company No. 127776-V)**  
**(Incorporated in Malaysia)**

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007**

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
<b>Cash Flows from Operating Activities</b>		
Profit before taxation and zakat	1,031,619	949,062
Adjustments for :		
Property, plant and equipment written off	655	2,298
Intangible assets written off	-	79
Depreciation of property, plant and equipment	29,077	27,770
Amortisation of intangible assets	13,549	5,762
Amortisation of prepaid lease payments	485	485
Net gain on disposal of property, plant and equipment	(3,728)	(379)
Dividend income	(1,410)	(2,253)
Operating profit before changes in operating assets	<u>1,070,247</u>	<u>982,824</u>
(Increase)/ Decrease in operating assets		
Securities purchased under resale agreements	414,960	(823,779)
Deposits and placements with banks and other financial institutions	540,929	(1,509,940)
Securities held-for-trading	(440,256)	(92,210)
Loans, advances and financing	(1,663,187)	(2,867,231)
Other assets	(319,564)	(206,264)
Statutory deposits with Bank Negara Malaysia	(6,199)	300
Increase/ (Decrease) in operating liabilities		
Deposits from customers	4,203,159	3,504,857
Deposits and placements of banks and other financial institutions	2,797,047	(20,473)
Obligations on securities sold under repurchase agreements	(1,660,739)	43,122
Bills and acceptances payable	137,675	14,115
Other liabilities	464,109	408,924
Recourse obligation on loans sold to Cagamas Berhad	(140,650)	111,820
Net cash generated from/ (used in) operating activities before income tax	<u>5,397,531</u>	<u>(453,935)</u>
Taxes and zakat paid	(271,219)	(275,803)
Net cash generated from/ (used in) operating activities	<u>5,126,312</u>	<u>(729,738)</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of property, plant and equipment	(32,286)	(31,319)
Purchase of intangible assets	(26,246)	(29,785)
Proceeds from disposal of property, plant and equipment	30,004	2,674
Securities available-for-sale	(442,188)	(510,342)
Dividend received	1,410	2,253
Net cash used in investing activities	<u>(469,306)</u>	<u>(566,519)</u>
<b>Cash Flows from Financing Activities</b>		
Issuance of subordinated bonds	1,000,000	-
Dividends paid	(450,000)	(300,000)
Net cash generating from/ (used in) financing activities	<u>550,000</u>	<u>(300,000)</u>
<b>Net increase/ (decrease) in Cash and Cash Equivalents</b>	<b>5,207,006</b>	<b>(1,596,257)</b>
<b>Cash and Cash Equivalents at beginning of year</b>	<b>6,114,345</b>	<b>7,710,602</b>
<b>Cash and Cash Equivalents at end of year</b>	<b><u>11,321,351</u></b>	<b><u>6,114,345</u></b>
<b>Analysis of Cash and Cash Equivalents</b>		
Cash and short-term funds	<u>11,321,351</u>	<u>6,114,345</u>

*The accompanying Notes form an integral part of the Financial Statements.*

**HSBC BANK MALAYSIA BERHAD**  
**(Company No. 127776-V)**  
**(Incorporated in Malaysia)**

**Notes to the Financial Statements as at 31 December 2007**

**1 Basis of Preparation**

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**(a) Statement of compliance**

The financial statements of the Group and of the Bank have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board (MASB) as modified by Bank Negara Malaysia's guidelines.

The financial statements incorporate those activities relating to Islamic Banking which have been undertaken by the Bank. Islamic Banking refers generally to the acceptance of deposits and granting of financing under the Shariah principles.

The MASB has issued the following FRSs and Interpretations that are effective for annual periods beginning after 1 January 2007 and that have not been applied in preparing these financial statements

<b>FRSs / Interpretations</b>	<b>Effective date</b>
FRS 107, <i>Cash Flow Statements</i>	1 July 2007
FRS 111, <i>Construction Contracts</i>	1 July 2007
FRS 112, <i>Income Taxes</i>	1 July 2007
FRS 118, <i>Revenue</i>	1 July 2007
FRS 119, <i>Employee Benefits</i>	1 July 2007
FRS 120, <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	1 July 2007
Amendment to FRS 121, <i>The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation</i>	1 July 2007
FRS 126, <i>Accounting and Reporting by Retirement Benefit Plans</i>	1 July 2007
FRS 129, <i>Financial Reporting in Hyperinflationary Economies</i>	1 July 2007
FRS 134, <i>Interim Financial Reporting</i>	1 July 2007
FRS 137, <i>Provisions, Contingent Liabilities and Contingent Assets</i>	1 July 2007
FRS 139, <i>Financial Instruments: Recognition and Measurement</i>	To be announced
IC Interpretation 1, <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	1 July 2007
IC Interpretation 2, <i>Members' Shares in Co-operative Entities and Similar Instruments</i>	1 July 2007
IC Interpretation 5, <i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	1 July 2007
IC Interpretation 6, <i>Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</i>	1 July 2007
IC Interpretation 7, <i>Applying the Restatement Approach under FRS 129, Financial Reporting in Hyperinflationary Economies</i>	1 July 2007
IC Interpretation 8, <i>Scope of FRS 2</i>	1 July 2007

The Group and the Bank plan to apply the abovementioned FRSs and Interpretations for the annual period beginning 1 January 2008, except for FRS 111, FRS 120, FRS 126, FRS 129, IC Interpretation 1, IC Interpretation 2, IC Interpretation 5, IC Interpretation 6 and IC Interpretation 7 which are not applicable to the Group and the Bank.



## **1 Basis of Preparation (continued)**

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### **(a) Statement of compliance (continued)**

In this set of financial statements, the Group and the Bank have chosen not to early adopt FRS 139 Financial Instruments: Recognition and Measurement, for which the MASB has yet to announce the effective date of the standard.

The impact of applying FRS 139 on the financial statements upon first adoption as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed by virtue of the exemption given in FRS 139.103AB.

The initial application of the other FRSs and Interpretations are not expected to have any material impact on the financial statements of the Group and the Bank.

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### **(b) Basis of measurement**

The financial statements of the Bank have been prepared on the historical cost basis, except for the following assets and liabilities as explained in their respective accounting policy notes:

- Held for trading securities
  - Available-for-sale securities
  - Property, plant and equipment
- 

### **(c) Functional and presentation currency**

These financial statements are presented in Ringgit Malaysia (RM), which is the Bank's functional currency. All financial information presented in RM has been rounded to the nearest thousand, unless otherwise stated.

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### **(d) Use of estimates and judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgements used in applying accounting policies that have significant effect on the amount recognized in the financial statements include the following: -

- Estimation of recoverable amount based on the discounted cash flow methodology for impaired loan (Notes 2(i), 8(ii) and 27).
  - Fair value estimation of financial assets and liabilities (Note 35)
-

## **2 Significant Accounting Policies**

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The accounting policies set out below have been applied consistently to the periods presented in these financial statements and have been applied consistently by the Group and Bank, unless otherwise stated.

### **(a) Basis of Consolidation**

The group financial statements include the financial statements of the Bank and its subsidiary companies.

The results of subsidiary companies acquired or incorporated during the financial year are included in the group income statement from the dates of acquisition or incorporation.

All significant intercompany transactions and balances have been eliminated on consolidation.

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### **(b) Revenue**

Revenue comprises gross interest income, fee income, dealing income, investment income and other income derived from banking operations.

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### **(c) Recognition of Interest and Expense / Islamic Financing Income and Expense**

Interest income and expense for all interest-bearing financial instruments except those classified as held-for-trading are recognised in 'interest income' and 'interest expense' in the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that exactly 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 Bank 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 Bank that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Where an amount is classified as non-performing, interest accrued and recognised as income prior to the date the loan is classified as non-performing shall be reversed out of income by debiting the interest income in the income statement and crediting the accrued interest receivable account in the balance sheet. Subsequently, interest earned on non-performing loans shall be recognised as income on a cash basis. Customers' accounts are classified as non-performing where repayments are in arrears for more than three months for all loans, advances and financing.

Income from Islamic banking operations and attributable profits on deposits and borrowings on activities relating to Islamic banking operations are recognised on an accrual basis in accordance with the principles of Shariah.

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## **2 Significant Accounting Policies (continued)**

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### **(d) Recognition of Fees and Other Income**

The Bank earns fee income from a diverse range of services it provides to its customers. Fee income is accounted for as follows:

- if the income is earned on the execution of a significant act, it is recognised as revenue when the significant act has been completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement for the acquisition of shares or other securities);
- if the income is earned as services are provided, it is recognised as revenue as the services are provided (for example, portfolio and other management advisory and service fee); and
- if the income is an integral part of the effective interest rate of a financial instrument, it is recognised as an adjustment to the effective interest rate (for example, loan commitment fees) and recorded in 'interest income' (see Note 2 (c)).

Dividend income from equity securities is recognised when the right to receive payment is established.

---

### **(e) Cash and Cash Equivalents**

For the purpose of the cash flow statement, cash and cash equivalents comprise cash and bank balances, and short term deposits and placements maturing within one month that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

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### **(f) Resale and Repurchase Agreements**

Securities purchased under resale agreements are securities which the Bank had purchased with a commitment to resell at future date. The commitment to resell the securities is reflected as an asset on the balance sheet.

Conversely, obligation on securities sold under repurchase agreements are securities which the Bank had sold from its portfolio, with a commitment to repurchase at future dates. Such financing transactions and the obligation to repurchase the securities are reflected as a liability on the balance sheet.

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## 2 Significant Accounting Policies (continued)

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### (g) *Securities*

The holdings of securities portfolio of the Bank are classified based on the following categories and valuation methods:

#### *i Held for trading*

Securities are classified as held for trading if acquired principally for the purpose of selling or repurchasing it in the near term or are part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Securities classified as held for trading are stated at fair value and any gains or losses from a change in the fair value, together with related interest income, are recognised within 'Other operating income' in the income statement.

#### *ii Held-to-maturity*

Held-to-maturity investments are securities with fixed or determinable payments and fixed maturities that the Bank has the positive intention and ability to hold until maturity. These investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

#### *iii Available-for-sale*

Available-for-sale securities are securities that are not classified as held for trading or held-to-maturity investments; and measured at fair value. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost. Changes in the fair value are recognised directly in equity, net of applicable taxes, until the securities are either sold or impaired. On the sale of available-for-sale securities, cumulative gains or losses previously recognised in equity are recognised through income statement. Interest income is recognised on such securities using the effective interest method, calculated over the asset's expected life. Where dated available-for-sale securities have been purchased at a premium or discount, these premiums and discounts are included in the calculation of the effective interest rate. Dividends on available-for-sale equity instruments are recognised in the income statement when the right to receive payment is established.

An assessment is made at each balance sheet date as to whether there is any objective evidence of impairment, being circumstances where an adverse impact on estimated future cash flows of the securities or group of securities can be reliably measured.

If an available-for-sale security is determined to be impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the income statement. The amount of cumulative loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that security previously recognised in the income statement. If, in subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, that portion of impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

## **2 Significant Accounting Policies (continued)**

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### **(g) Securities (continued)**

#### **iii Available-for-sale (continued)**

For loans converted into debt or equity instruments classified as available-for-sale, these instruments are measured at fair value. The difference between the net book value of the restructured loans (outstanding amount of loans net of specific allowance) and the fair value of the debt or equity instruments will be gain or loss from the conversion scheme.

- Where the net book value of the restructured loans is higher than the fair value of the debt or equity instruments, the loss shall be recognised in income statement in the current reporting period.
  - Where the fair value of the debt or equity instruments is higher than the net book value of the restructured loans, the gain from the conversion exercise is transferred to the “impairment loss” account, which would be netted off from the “Securities” account in the balance sheet.
- 

### **(h) Loans, Advances and Financing**

Loans, advances and financing include loans and advances originated from the Bank, which are not intended to be sold in the short term and have not been classified as held for trading. Loans, advances and financing are recognised when cash is advanced to borrowers. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment losses.

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### **(i) Allowance for Losses on Loans and Financing/ Loan Impairment**

The Bank's allowance for non-performing loans and financing is in conformity with the requirements of Bank Negara Malaysia's "Guidelines on Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts, BNM/GP3". Accounts are classified as non-performing when interest or principal is in arrears for more than ninety (90) days.

Specific allowances are made for doubtful debts and financing which have been individually reviewed and specifically identified as bad or doubtful.

A general allowance based on a percentage of the loan and financing portfolio is also made to cover possible losses which are not specifically identified.

Loans (and related allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from the realisation of security have been received.

## **2 Significant Accounting Policies (continued)**

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### **(i) Allowance for Losses on Loans and Financing/ Loan Impairment (continued)**

Impaired loans are measured at their estimated recoverable amount based on the discounted cash flow methodology. Specific allowances are provided if the recoverable amount (present value of estimated future cash flows discounted at original effective interest rate) is lower than the net book value of the loans (outstanding amount of loans, advances and financing, net of specific allowance). The expected cash flows are based on projections of liquidation proceeds, realisation of assets or estimates of future operating cash flows.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent it is now excessive by reducing the loan impairment allowance account. The amount of any reversal is recognised in the income statement.

In addition, the Bank makes additional specific allowance as follows:

- i fifty per cent (50%) of the secured portion of non-performing loans which are in arrears for more than five (5) years but less than seven (7) years; and
- ii hundred per cent (100%) of the secured portion of non-performing loans which are in arrears for more than seven (7) years.

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### **(j) Investment in Subsidiary Companies**

Subsidiary company is entity controlled by the Group. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Investments in subsidiary companies are stated at cost less any impairment losses.

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### **(k) Property, Plant and Equipment**

Property plant and equipment are stated at cost/valuation less accumulated depreciation and accumulated impairment losses except for freehold land which is stated at cost and directors' valuation.

#### **i Revaluation**

Land and buildings are revalued once every five years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value.

Surpluses arising from revaluation are dealt with in the property revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to the income statement.

## **2 Significant Accounting Policies (continued)**

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### **(k) Property, Plant and Equipment (continued)**

#### **ii Depreciation**

Freehold land is not depreciated. Depreciation of other property, plant and equipment is calculated to write off the cost of the property, plant and equipment on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates are:

Buildings on freehold land	50 years
Office equipment, fixtures and fittings	5 to 10 years
Computer equipment	3 to 5 years
Motor vehicles	5 years

With the exception of properties, additions to property, plant and equipment costing RM1,000 and under are fully depreciated in the year of purchase; for those assets costing more than RM1,000, depreciation is provided at the above rates.

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### **(l) Intangible Assets**

Intangible assets represent computer software and are stated at cost less amortisation and accumulated impairment losses. Amortisation of intangible assets is calculated to write off the cost of the intangible assets on a straight line basis over the expected useful lives of 3 to 5 years.

---

### **(m) Bills and Acceptances Payable**

Bills and acceptances payable represent the Bank's own bills and acceptances rediscounted and outstanding in the market.

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### **(n) Recourse Obligation on Loans Sold to Cagamas Berhad**

In the normal course of banking operations, the Bank sells loans to Cagamas Berhad. The Bank is liable in respect of the loans sold directly to Cagamas Berhad under the condition that the Bank undertakes to administer the loans on behalf of Cagamas Berhad and to buy back any loans which are regarded as defective based on prudence. Such financing transactions and the obligation to buy back the loans is reflected as a liability on the balance sheet.

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### **(o) Subordinated Bonds**

Subordinated bonds are carried at its face value. Interest expense on subordinated bonds of the Group and Bank is recognised on an accrual basis.

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## **2 Significant Accounting Policies (continued)**

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### **(p) Taxation and Deferred Taxation**

Tax on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, calculated using tax rates enacted or substantially enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Temporary differences are not recognised for the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner or realisation of settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted by the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax relating to fair value re-measurement of available-for-sale investments, which is charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

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### **(q) Derivatives and Hedge Accounting**

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values are obtained from quoted market prices in active markets, or by using valuation techniques, including recent market data, where an active market does not exist. Valuation techniques include discounted cash flow models and option pricing models as appropriate. All derivatives are classified as assets when their fair value is positive, or as liabilities when their fair value is negative. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement.

The accounting for changes (i.e. gains and losses) in the fair value of a derivative which qualifies for hedge accounting depends on the intended use of the derivative and the resulting designation as described below:

#### ***i Fair value hedge***

For a derivative designated as hedging the exposures in the fair value of a recognised asset or liability or a firm commitment, the gain or loss is recognised in the income statement, together with the associated loss or gain on the hedged item attributable to the hedged risk.

#### ***ii Cash flow hedge***

For a derivative designated as hedging the exposure to variable cash flows of a recognised asset or liability, or of a highly probable forecast transaction, the gain or loss on the derivative associated with the effective portion of the hedged is recognised in equity. Any gain or loss relating to an in-effective portion is recognised immediately in the income statement.



## **2 Significant Accounting Policies (continued)**

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### **(r) Currency Translations**

Individual foreign currency assets and liabilities are stated in the balance sheet at spot rates of exchange which closely approximate those ruling at the balance sheet date. Income statement items are translated at rates prevailing on transaction dates. Exchange gains and losses are recognised in the income statement in the year they arise.

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### **(s) Provisions**

A provision is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present legal or constructive obligation as a result of a past event and a reliable estimate can be made of the amount of the obligation.

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### **(t) Profit Equalisation Reserves ('PER')**

PER refers to the amount appropriated out of the total Islamic Banking gross income in order to maintain an acceptable level of return to depositors as stipulated by Bank Negara Malaysia's "The Framework of Rate of Return". PER is a provision shared by both the depositors and the Bank, and is deducted from the total gross income. Maximum monthly provision of PER is up to 15% of the gross income and can be accumulated up to a maximum of 30% of Islamic Banking Capital Funds.

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### **(u) Employee Benefits**

#### **i Short term employee benefits**

Wages, salaries, bonuses, paid annual and sick leave, social security contributions and non-monetary benefits are accrued in the period in which the associated services are rendered by the employees of the Bank.

#### **ii Defined contribution plan**

As required by law, companies in Malaysia make contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

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### 3 Cash and Short Term Funds

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
Cash and balances with banks and other financial institutions	1,628,709	720,397
Money at call and deposit placements maturing within one month	9,692,642	5,393,948
	<b>11,321,351</b>	<b>6,114,345</b>

### 4 Deposits and Placements with Banks and Other Financial Institutions

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
Licensed banks	158,099	-
Licensed finance companies	-	35,275
Licensed merchant banks	-	17,507
Bank Negara Malaysia	780,000	1,937,100
Other financial institutions	510,854	-
	<b>1,448,953</b>	<b>1,989,882</b>

### 5 Securities Held-for-Trading

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
Money market instruments:		
Malaysian Government treasury bills	83,422	116,400
Bank Negara Malaysia bills and notes	316,580	202,738
Bank Negara Malaysia Islamic bills	315,096	14,887
Malaysian Government securities	413,625	213,998
Malaysian Government Islamic bonds	9,780	23,361
Khazanah bonds	-	11,404
Cagamas bonds and notes	12,474	4,745
	<b>1,150,977</b>	<b>587,533</b>
Unquoted securities:		
Private debt securities (including commercial paper)	85,216	208,404
	<b>1,236,193</b>	<b>795,937</b>

## 6 Securities Available-for-Sale

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
Money market instruments:		
Malaysian Government treasury bills	29,916	30,794
Malaysian Government Islamic treasury bills	-	39,408
Bank Negara Malaysia bills and notes	775,282	-
Bank Negara Malaysia Islamic bills	804,051	-
Malaysian Government securities	371,059	574,899
Malaysian Government Islamic bonds	651,757	579,980
Khazanah bonds	277,853	262,200
Cagamas bonds and notes	540,095	841,168
Negotiable instruments of deposit	320,015	477,020
Bankers' acceptance and Islamic accepted bills	90,202	531,279
	<b>3,860,230</b>	<b>3,336,748</b>
Quoted securities:		
Shares	21,108	20,340
Loan stock	16,106	12,492
	<b>37,214</b>	<b>32,832</b>
Unquoted securities:		
Shares	77,342	28,572
Private and Islamic debt securities	313,837	420,895
	<b>391,179</b>	<b>449,467</b>
Impairment loss:		
Quoted securities in Malaysia:		
Shares	-	(5,701)
Loan stock	(16,106)	(6,883)
	<b>(16,106)</b>	<b>(12,584)</b>
	<b>4,272,517</b>	<b>3,806,463</b>

The maturity structure of money market instruments held as securities available-for-sale is as follows:

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
Maturing within one year	2,766,081	1,721,614
One year to three years	1,094,069	1,572,311
Three years to five years	80	42,823
	<b>3,860,230</b>	<b>3,336,748</b>

## 7 Loans, Advances and Financing

### (i) By type

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
Overdrafts	1,523,922	1,489,375
Term loans/ financing		
Housing loans/ financing	8,486,428	8,569,510
Syndicated term loans/ financing	155,159	41,277
Hire purchase receivables	251,516	191,050
Lease receivables	23,570	30,854
Other term loans/ financing	6,887,328	6,395,016
Bills receivable	1,519,669	1,093,859
Trust receipts	640,323	412,583
Claims on customers under acceptance credits	2,567,640	2,717,235
Staff loans/ financing	329,416	312,700
Loans to executive directors	-	232
Credit/ charge cards	2,343,528	2,017,522
Revolving credit	2,024,455	1,848,250
Other loans/ financing	5,574	12,285
Less: Unearned interest and income	(131,370)	(142,816)
	<u>26,627,158</u>	<u>24,988,932</u>
Less: Allowance for bad and doubtful debts and financing:		
- General	(401,700)	(372,600)
- Specific	(218,334)	(272,395)
Total net loans, advances and financing	<u>26,007,124</u>	<u>24,343,937</u>

### (ii) By type of customer

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
Domestic non-bank financial institutions		
- Stockbroking companies	153,084	150,087
- Others	47,138	162,927
Domestic business enterprises		
- Small medium enterprises	3,447,776	4,338,440
- Others	9,211,129	7,093,461
Government and statutory bodies	23	46
Individuals	13,190,289	12,798,944
Other domestic entities	2,695	3,508
Foreign entities	575,024	441,519
	<u>26,627,158</u>	<u>24,988,932</u>

### (iii) By interest/ profit rate sensitivity

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
Fixed rate		
Housing loans/ financing	281,934	307,762
Hire purchase receivables	223,506	169,720
Other fixed rate loans/ financing	4,157,222	5,399,982
Variable rate		
BLR plus	17,596,513	15,245,696
Cost-plus	2,024,455	1,848,250
Other variable rates	2,343,528	2,017,522
	<u>26,627,158</u>	<u>24,988,932</u>

## 7 Loans, Advances and Financing (continued)

### (iv) By sector

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	1,001,145	999,703
Mining and quarrying	177,656	191,676
Manufacturing	5,064,036	4,569,025
Electricity, gas and water	110,542	134,452
Construction	639,879	452,645
Real estate	690,951	635,859
Purchase of landed property:		
- Residential	8,926,254	8,953,961
- Non-residential	1,164,051	1,019,027
Wholesale & retail trade and restaurants & hotels	2,280,204	2,296,170
Transport, storage and communication	247,079	174,796
Finance, insurance and business services	1,496,488	1,332,493
Purchase of securities	48,123	115,595
Purchase of transport vehicles	39,915	34,284
Consumption credit	4,325,096	3,765,751
Others	415,739	313,495
	<b>26,627,158</b>	<b>24,988,932</b>

### (v) By maturity structure

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
Maturing within one year	15,052,588	12,772,516
One year to three years	2,177,112	1,711,717
Three years to five years	2,212,008	2,197,706
Over five years	7,185,450	8,306,993
	<b>26,627,158</b>	<b>24,988,932</b>

## 8 Non-Performing Loans/ Financing (NPL/ NPF)

### (i) Movements in non-performing loans, advances and financing

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
At beginning of year	538,401	688,626
Classified as non-performing during the year	541,516	325,223
Reclassified as performing	(104,002)	(111,016)
Loans/ financing converted to securities	(19,339)	-
Amount recovered	(173,397)	(176,815)
Amount written off	(256,499)	(188,153)
Disposal	(94,727)	-
Other movements	6,072	536
At end of year	438,025	538,401
Specific allowance	(218,334)	(272,395)
Net non-performing loans, advances and financing	<b>219,691</b>	<b>266,006</b>
Ratio of net non-performing loans, advances and financing to net loans, advances and financing	0.8%	1.1%

## 8 Non-Performing Loans/ Financing (NPL/ NPF) (continued)

### (ii) Movements in allowance for bad and doubtful debts

	<i>Group and Bank</i>	
	2007 RM'000	2006 RM'000
<b>General allowance</b>		
At beginning of year	372,600	327,200
Allowance made during the year	53,200	45,400
Amount written back during the year	(24,100)	-
At end of year	<b>401,700</b>	<b>372,600</b>
As % of gross loans, advances and financing less specific allowance	1.5%	1.5%
<b>Specific allowance</b>		
At beginning of year	272,395	322,943
Allowance made during the year	318,312	224,961
Amount recovered	(69,895)	(98,275)
Amount written off	(308,547)	(177,770)
Other movements	6,069	536
At end of year	<b>218,334</b>	<b>272,395</b>

### (iii) By sector

	<i>Group and Bank</i>	
	2007 RM'000	2006 RM'000
Agricultural, hunting, forestry and fishing	2,400	2,190
Mining and quarrying	-	541
Manufacturing	67,164	100,486
Construction	8,013	24,585
Real estate	14,552	16,863
Purchase of landed property:		
- Residential	161,317	226,133
- Non-residential	22,244	20,057
Wholesale & retail trade and restaurants & hotels	39,578	38,191
Transport, storage and communication	1,999	3,224
Finance, insurance and business services	3,548	20,711
Purchase of securities	363	362
Purchase of transport vehicles	286	170
Consumption credit	113,971	82,041
Others	2,590	2,847
	<b>438,025</b>	<b>538,401</b>

## 9 Other Assets

	<i>Group and Bank</i>	
	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Derivative financial assets (Note 32)	<b>546,321</b>	313,578
Interest/ income receivable	<b>46,528</b>	55,658
Other receivables, deposits and prepayments	<b>304,804</b>	208,853
	<b>897,653</b>	<b>578,089</b>

## 10 Statutory Deposits with Bank Negara Malaysia

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994), the amounts of which are determined at set percentages of total eligible liabilities.

## 11 Investments in Subsidiary Companies

	<i>Bank</i>	
	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Unquoted shares, at cost - in Malaysia	<b>21</b>	21

The subsidiary companies of the Bank are as follows:

<i>Name</i>	<i>Principal activities</i>	<i>Country of incorporation</i>	<i>Percentage of equity held</i>	
			<b>2007</b>	2006
HSBC (Kuala Lumpur) Nominees Sdn Bhd	Nominee company	Malaysia	100%	100%
HSBC Nominees (Tempatan) Sdn Bhd	Nominee company	Malaysia	100%	100%
HSBC Nominees (Asing) Sdn Bhd	Nominee company	Malaysia	100%	100%

All income and expenditure arising from the nominee activities of the subsidiary companies have been recognised in the Bank's results.

**12 Prepaid Lease Payments**

	<i>Group and Bank</i>		
	<i>Unexpired period less than 50 years</i>	<i>Unexpired period more than 50 years</i>	<i>Total</i>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2007</b>			
<b>Cost/ Valuation</b>			
Balance as at 1 January 2007	8,261	14,204	22,465
Disposal	(150)	-	(150)
Balance as at 31 December 2007	<u>8,111</u>	<u>14,204</u>	<u>22,315</u>
<b>Amortisation</b>			
Balance as at 1 January 2007	398	573	971
Amortisation for the year	198	287	485
Disposal	(31)	-	(31)
Balance as at 31 December 2007	<u>565</u>	<u>860</u>	<u>1,425</u>
<b>Carrying amount at 31 December 2007</b>	<b><u>7,546</u></b>	<b><u>13,344</u></b>	<b><u>20,890</u></b>
<b>2006</b>			
<b>Cost/ Valuation</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Balance as at 1 January 2006/ 31 December 2006	<u>8,261</u>	<u>14,204</u>	<u>22,465</u>
<b>Amortisation</b>			
Balance as at 1 January 2006	199	287	486
Amortisation for the year	199	286	485
Balance as at 31 December 2006	<u>398</u>	<u>573</u>	<u>971</u>
<b>Carrying amount at 31 December 2006</b>	<b><u>7,863</u></b>	<b><u>13,631</u></b>	<b><u>21,494</u></b>



### 13 Property, Plant and Equipment

2007	Group and Bank							Total
	Freehold land	Building on freehold land	Building on short term leasehold land	Building on long term leasehold land	Office equipment, fixtures and fittings	Computer equipment	Motor vehicles	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Cost or valuation</b>								
Balance as at 1 January 2007	76,500	130,573	6,047	9,363	133,394	107,795	6,613	470,285
Additions	-	1,075	-	865	19,448	10,160	738	32,286
Disposals	(8,000)	(17,458)	(359)	-	(118)	(1,021)	(2,958)	(29,914)
Written off	-	-	-	-	(5,919)	(1,647)	-	(7,566)
Balance as at 31 December 2007	68,500	114,190	5,688	10,228	146,805	115,287	4,393	465,091
Representing items at:								
Cost	-	5,278	-	865	146,805	115,287	4,393	272,628
Valuation - 2004	68,500	108,912	5,688	9,363	-	-	-	192,463
	68,500	114,190	5,688	10,228	146,805	115,287	4,393	465,091
<b>Accumulated depreciation</b>								
Balance as at 1 January 2007	-	5,274	342	148	111,247	68,260	3,121	188,392
Charge for the year	-	2,647	197	196	10,324	14,672	1,041	29,077
Disposals	-	(985)	(75)	-	(116)	(801)	(1,780)	(3,757)
Written off	-	-	-	-	(5,283)	(1,628)	-	(6,911)
Balance as at 31 December 2007	-	6,936	464	344	116,172	80,503	2,382	206,801
<b>Net book value at 31 December 2007</b>	<b>68,500</b>	<b>107,254</b>	<b>5,224</b>	<b>9,884</b>	<b>30,633</b>	<b>34,784</b>	<b>2,011</b>	<b>258,290</b>

Had the land and building been carried at historical cost less accumulated depreciation, the carrying amount of the revalued assets that would have been included in the financial statements at the end of the year would be as follows:

2007	5,203	55,406	4,207	7,860	-	-	-	72,676
2006	18,003	75,181	4,689	7,215	-	-	-	105,088

The land and buildings of the Bank were revalued by directors on the open market value basis as of 31 December 2004 based on professional valuations.

**13 Property, Plant and Equipment (continued)**

2006	<i>Group and Bank</i>							<i>Total</i>
	<i>Freehold land</i>	<i>Building on freehold land</i>	<i>Building on short term leasehold land</i>	<i>Building on long term leasehold land</i>	<i>Office equipment, fixtures and fittings</i>	<i>Computer equipment</i>	<i>Motor vehicles</i>	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Cost or valuation</b>								
Balance as at 1 January 2006	76,500	127,693	6,139	9,810	135,927	141,465	8,034	505,568
Additions	-	3,421	-	-	9,363	18,181	354	31,319
Disposals	-	-	-	-	(872)	(7,732)	(1,775)	(10,379)
Written off	-	(541)	(92)	(447)	(7,931)	(47,212)	-	(56,223)
Reclassification	-	-	-	-	(3,093)	3,093	-	-
Balance as at 31 December 2006	76,500	130,573	6,047	9,363	133,394	107,795	6,613	470,285
Representing items at:								
Cost	-	4,203	-	-	133,394	107,795	6,613	252,005
Valuation - 2004	76,500	126,370	6,047	9,363	-	-	-	218,280
	76,500	130,573	6,047	9,363	133,394	107,795	6,613	470,285
<b>Accumulated depreciation</b>								
Balance as at 1 January 2006	-	2,595	201	200	111,460	105,615	2,560	222,631
Charge for the year	-	2,979	201	197	9,921	13,007	1,465	27,770
Disposals	-	-	-	-	(853)	(6,327)	(904)	(8,084)
Written off	-	(300)	(60)	(249)	(7,745)	(45,571)	-	(53,925)
Reclassification	-	-	-	-	(1,536)	1,536	-	-
Balance as at 31 December 2006	-	5,274	342	148	111,247	68,260	3,121	188,392
<b>Net book value at 31 December 2006</b>	<b>76,500</b>	<b>125,299</b>	<b>5,705</b>	<b>9,215</b>	<b>22,147</b>	<b>39,535</b>	<b>3,492</b>	<b>281,893</b>

**14 Intangible Assets**

	<i>Group and Bank</i>
<b>2007</b>	<i>Computer software</i> <b>RM'000</b>
<b>Cost</b>	
Balance as at 1 January 2007	52,109
Additions	26,246
Written off	(110)
Balance as at 31 December 2007	<u>78,245</u>
<b>Accumulated depreciation</b>	
Balance as at 1 January 2007	22,937
Charge for the year	13,549
Written off	(110)
Balance as at 31 December 2007	<u>36,376</u>
<b>Net book value at 31 December 2007</b>	<u><b>41,869</b></u>
<b>2006</b>	<b>RM'000</b>
<b>Cost</b>	
Balance as at 1 January 2006	23,538
Additions	29,785
Written off	(1,214)
Balance as at 31 December 2006	<u>52,109</u>
<b>Accumulated depreciation</b>	
Balance as at 1 January 2006	18,310
Charge for the year	5,762
Written off	(1,135)
Balance as at 31 December 2006	<u>22,937</u>
<b>Net book value at 31 December 2006</b>	<u><b>29,172</b></u>

## 15 Deferred Tax

The amounts, determined after appropriate offsetting, are as follows:

	<i>Group and Bank</i>	
	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Deferred tax liabilities	<b>(35,470)</b>	(43,525)
Deferred tax assets	<b>105,145</b>	112,855
	<b><u>69,675</u></b>	<u>69,330</u>

Deferred tax liabilities and assets are offset above where there is a legally enforceable right to set off current tax assets against current tax liabilities.

The recognised deferred tax assets and liabilities (before offsetting) are as follows:

	<i>Group and Bank</i>	
	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Property, plant and equipment		
- capital allowances	<b>(6,520)</b>	(9,893)
- revaluation	<b>(20,177)</b>	(24,455)
Available-for-sale reserve	<b>(15,293)</b>	(9,177)
Allowances		
- general allowance	<b>108,459</b>	104,328
- others	<b>2,369</b>	2,210
Share based payment	-	5,345
Lease receivables	<b>837</b>	972
	<b><u>69,675</u></b>	<u>69,330</u>

**15 Deferred tax (continued)**

**Movement in temporary differences during the year**

*Group and Bank*

	<i>As at 01-Jan-06</i>	<i>Recognised in income statement</i>	<i>Recognised in equity</i>	<i>As at 31-Dec-06</i>	<i>Recognised in income statement</i>	<i>Recognised in equity</i>	<i>As at 31-Dec-07</i>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment							
- capital allowance	(9,443)	(450)	-	(9,893)	3,373	-	(6,520)
- revaluation	(24,919)	464	-	(24,455)	295	3,983	(20,177)
Available for sale reserves	(5,989)	-	(3,188)	(9,177)	-	(6,116)	(15,293)
Allowances							
- general allowances	91,616	12,712	-	104,328	4,131	-	108,459
- others	1,074	1,136	-	2,210	159	-	2,369
Share based payments	3,262	2,083	-	5,345	(5,345)	-	-
Lease receivables	1,208	(236)	-	972	(135)	-	837
	56,809	15,709	(3,188)	69,330	2,478	(2,133)	69,675

## 16 Deposits from Customers

### (i) By type of deposit

	<i>Group</i>		<i>Bank</i>	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Demand deposits	7,606,560	6,291,330	7,606,581	6,291,351
Savings deposits	5,159,481	4,735,405	5,159,481	4,735,405
Fixed / Investment deposits	20,316,874	19,276,553	20,316,874	19,276,553
Negotiable instruments of deposit	266,092	1,073,968	266,092	1,073,968
Others	2,824,667	593,259	2,824,667	593,259
	<b>36,173,674</b>	<b>31,970,515</b>	<b>36,173,695</b>	<b>31,970,536</b>

The maturity structure of fixed / investment deposits and negotiable instruments of deposit is as follows:

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
Due within six months	16,101,748	16,189,082
Six months to one year	4,127,503	3,687,742
One year to three years	115,096	240,060
Three years to five years	71,491	85,003
Over five years	167,128	148,634
	<b>20,582,966</b>	<b>20,350,521</b>

### (ii) By type of customer

	<i>Group</i>		<i>Bank</i>	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Government and statutory bodies	156,972	97,772	156,972	97,772
Business enterprises	14,388,888	12,343,425	14,388,909	12,343,446
Individuals	17,780,919	15,964,350	17,780,919	15,964,350
Others	3,846,895	3,564,968	3,846,895	3,564,968
	<b>36,173,674</b>	<b>31,970,515</b>	<b>36,173,695</b>	<b>31,970,536</b>

## 17 Deposits and Placements of Banks and Other Financial Institutions

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
Licensed banks	-	81,000
Bank Negara Malaysia	111,089	18,774
Other financial institutions	4,471,977	1,686,245
	<b>4,583,066</b>	<b>1,786,019</b>

## 18 Other Liabilities

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
Derivative financial liabilities (Note 32)	507,882	309,747
Interest/ profit payable	196,813	175,082
Allowance for commitments and contingencies	2,245	2,369
Profit equalisation reserve	5,700	4,700
Other creditors and accruals	1,102,910	859,543
	<b>1,815,550</b>	<b>1,351,441</b>

Movement in allowance for commitments and contingencies is as follows:

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
At beginning of year	2,369	3,030
Allowance made during the year	-	419
Amount released	(123)	(1,077)
	(123)	(658)
Other movements	(1)	(3)
At end of year	<b>2,245</b>	<b>2,369</b>

## 19 Provision for Taxation and Zakat

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
Taxation	57,499	31,278
Zakat	70	-
	<b>57,569</b>	<b>31,278</b>

## 20 Subordinated Bonds

The Bank issued the following Subordinated Bonds during the financial year ended 31 December 2007.

	Note	<i>Group and Bank</i>	
		2007	2006
		RM'000	RM'000
RM500 million subordinated bonds due in 2022	(a)	500,000	-
RM500 million subordinated bonds due in 2027	(b)	500,000	-
		<b>1,000,000</b>	<b>-</b>

- a) On 28 June 2007, the Bank issued at par RM500 million 4.35% Subordinated Bonds due 2022 callable with a step up coupon in 2017.

The Bank may redeem the Subordinated Bonds, in whole or in part, at any anniversary date, on or after the 10th year from Issue Date at 100% of the principal amount together with accrued interest. Should the Bank decide not to exercise its call option on the first permissible call date, then the coupon rate will be stepped up to 5.35% per annum from the beginning of the 10th year to the maturity date in 2022.

- b) On 2 November 2007, the Bank issued at par the second tranche of RM500 million 5.05% Subordinated Bonds due 2027 callable with a step up coupon in 2022.

The Bank may redeem the Subordinated Bonds, in whole or in part, at any anniversary date, on or after the 15th year from Issue Date at 100% of the principal amount together with accrued interest. Should the Bank decide not to exercise its call option on the first permissible call date, then the coupon rate will be stepped up to 6.05% per annum from the beginning of the 15th year to the maturity date in 2027.

## 21 Share Capital

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
<b>Authorised</b>		
Ordinary shares of RM0.50 each	500,000	500,000
Preference shares of RM0.50 each	500,000	500,000
	<b>1,000,000</b>	<b>1,000,000</b>
<b>Issued and Fully Paid</b>		
Ordinary shares of RM0.50 each	114,500	114,500

## 22 Reserves

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
Share premium	741,375	741,375
Statutory reserve	114,500	114,500
Revaluation reserve	122,769	118,966
Capital redemption reserve	190,000	190,000
Available-for-sale reserve	41,347	23,597
Retained profits	1,546,760	1,259,993
	<b>2,756,751</b>	<b>2,448,431</b>

The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and is not distributable as cash dividends.

The capital redemption reserve is maintained in compliance with Section 61 of the Companies Act, 1965 arising from the full redemption of RM190 million cumulative redeemable preference shares.

The Bank has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of dividend out of all its retained profits.

## 23 Interest Income

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
Loans and advances		
- Interest income other than recoveries from NPLs	1,484,083	1,337,368
- Recoveries from NPLs	37,199	51,077
Money at call and deposit placement with financial institutions	346,861	306,601
Securities available-for-sale	95,604	78,225
	<b>1,963,747</b>	<b>1,773,271</b>
Amortisation of premium less accretion of discounts	58,404	10,007
Interest suspended	(22,003)	(19,591)
Total interest income	<b>2,000,148</b>	<b>1,763,687</b>



## 24 Interest Expense

	<i>Group and Bank</i>	
	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Deposits and placements of banks and other financial institutions	<b>73,188</b>	71,188
Deposits from customers	<b>714,931</b>	592,439
Loans sold to Cagamas	<b>38,786</b>	42,379
Subordinated bonds	<b>15,294</b>	-
Others	<b>44,683</b>	67,248
	<b>886,882</b>	773,254

## 25 Other Operating Income

	<i>Group and Bank</i>	
	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Fees and commissions	<b>419,246</b>	372,021
Net gains arising from sale of securities		
- Securities held-for-trading	<b>348</b>	22,409
- Securities available-for-sale	<b>25,362</b>	17,369
Net interest income from trading securities	<b>44,521</b>	22,075
Net unrealised (losses)/ gains on revaluation of trading securities	<b>(5,396)</b>	5,126
Net gains arising from dealing in foreign currency	<b>354,894</b>	266,934
Net unrealised losses from dealing in foreign currency	<b>(18,423)</b>	(14,565)
Net gains arising from trading in derivatives	<b>14,228</b>	15,243
Net unrealised losses on revaluation of derivatives	<b>(5,277)</b>	(2,232)
Dividend income from securities available-for-sale		
- Quoted in Malaysia	-	1,098
- Unquoted in Malaysia	<b>1,410</b>	1,155
Rental income	<b>6,557</b>	6,539
Net gains on disposal of property, plant and equipment	<b>3,728</b>	379
Gain from sale of a business operation	-	35,156
Other operating income	<b>27,891</b>	13,148
	<b>869,089</b>	761,855

The above fees and commissions were derived from the following major contributors:

Cards	<b>147,266</b>	170,642
Service charges and fees	<b>132,614</b>	103,200
Agency fees	<b>66,247</b>	41,940
Credit facilities	<b>27,488</b>	25,627

## 26 Other Operating Expenses

	<i>Group and Bank</i>	
	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Personnel expenses	<b>487,157</b>	448,935
Promotion and marketing related expenses	<b>70,790</b>	70,862
Establishment related expenses	<b>103,086</b>	92,296
General administrative expenses	<b>295,757</b>	263,122
	<b>956,790</b>	875,215

The above expenditure includes the following major items / statutory disclosures:

Personnel expenses		
Salaries, allowances and bonuses	<b>375,753</b>	334,195
Employees Provident Fund contributions	<b>61,626</b>	53,143
Promotion and marketing related expenses		
Advertising and promotion	<b>44,619</b>	43,608
Establishment related expenses		
Depreciation of property, plant and equipment	<b>29,077</b>	27,770
Amortisation of intangible assets	<b>13,549</b>	5,762
Information technology costs	<b>15,751</b>	18,001
Hire of equipment	<b>9,663</b>	8,466
Rental of premises	<b>12,659</b>	10,539
Property, plant and equipment written off	<b>655</b>	2,298
Intangible assets written off	<b>-</b>	79
General administrative expenses		
Intercompany expenses	<b>196,122</b>	149,802
Fees and commissions paid	<b>2,042</b>	35,866
Auditors' remuneration	<b>355</b>	325

The number of employees of the Bank as at 31 December 2007 was 5,117 (31 December 2006: 4,996).

## 27 Allowance for Losses on Loans and Financing

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
Allowance for bad and doubtful debts on loans and financing		
(a) Specific allowance		
- Made in the financial year	318,312	224,961
- Written back	(69,895)	(98,275)
(b) General allowance		
- Made in the financial year	53,200	45,400
- Written back	(24,100)	-
Bad debts on loans and financing		
- Recovered	(77,893)	(76,302)
- Written off	25,871	11,686
Allowance for losses on commitments and contingencies		
- Made in the financial year	-	419
- Written back	(123)	(1,077)
	<b>225,372</b>	<b>106,812</b>

## 28 Taxation and Zakat

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
Malaysian income tax	297,440	283,310
Deferred tax		
Origination and reversal of temporary differences	(6,155)	(15,709)
Effect of change in tax rate	3,677	-
	<b>294,962</b>	<b>267,601</b>
Over provision in respect of prior years	-	(6,000)
	<b>294,962</b>	<b>261,601</b>
Zakat	70	55
	<b>295,032</b>	<b>261,656</b>

*A numerical reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate is as follows:*

	<i>Group and Bank</i>	
	2007	2006
	RM'000	RM'000
Profit before taxation	<b>1,031,619</b>	<b>949,062</b>
Income tax using Malaysian tax rates (27%) (2006: 28%)	278,537	265,737
Non-deductible expenses	15,147	12,276
Tax exempt income	(2,399)	(10,412)
Effect of changes in tax rate	3,677	-
Over provision in respect of prior years	-	(6,000)
Tax expense	<b>294,962</b>	<b>261,601</b>

## 29 Earnings per Share

The earnings per ordinary share have been calculated based on the net profit and 229,000,000 (2006: 229,000,000) ordinary shares of RM0.50 each in issue during the year.

### 30 Significant Related Party Transactions and Balances

Parties are considered to be related if : -

- one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or
- they are under common control by another party

The related parties of the Group and the Bank comprise: -

- the Bank's subsidiaries and ultimate holding company,
- subsidiary and associated companies of the Bank's ultimate holding company,
- key management personnel who are defined as those person having authority and responsibility for planning, directing and controlling the activities of the Bank, being the members of the Board of Directors of HSBC Bank Malaysia Berhad, and
- the close family members of key management personnel.

- The significant transactions and outstanding balances of the Group and the Bank with parent companies and other related companies are as follows:

	2007		2006	
	<i>Parent companies</i> RM'000	<i>Other related companies</i> RM'000	<i>Parent companies</i> RM'000	<i>Other related companies</i> RM'000
<u>Income</u>				
Interest on intercompany placements	-	28,807	-	22,130
Interest on current accounts	-	11,917	-	12,918
Fees and commission	-	31,561	-	10,585
Other income	-	12,884	-	8,551
	<u>-</u>	<u>85,169</u>	<u>-</u>	<u>54,184</u>
<u>Expenditure</u>				
Interest on intercompany deposits	-	20,612	-	33,528
Interest on current accounts	-	585	-	29
Fees and commission	-	2,852	-	3,053
Operating expenses	46,208	149,914	41,379	108,423
	<u>46,208</u>	<u>173,963</u>	<u>41,379</u>	<u>145,033</u>
<u>Amount due from</u>				
Intercompany placements	-	577,719	-	184,408
Current account balances	-	132,399	-	460,673
Other assets	-	115,032	-	12,724
	<u>-</u>	<u>825,150</u>	<u>-</u>	<u>657,805</u>
<u>Amount due to</u>				
Intercompany deposits	-	984,142	-	382,504
Current account balances	-	71,105	-	132,919
Other liabilities	71,048	142,250	80,408	122,147
	<u>71,048</u>	<u>1,197,497</u>	<u>80,408</u>	<u>637,570</u>

All transactions between the Bank and its related parties are made in the ordinary course of business and on substantially the same terms, including interest rates, as for comparable transactions with a third party.

There is no outstanding loan and advance balance due by the key management personnel of the Bank as at 31 December 2007, except for a total outstanding credit cards balance of RM48,532.

### 30 Significant Related Party Transactions and Balances (continued)

(b) Key Management Personnel Compensation

The remuneration of the key management personnel, being the members of the Board of Directors of HSBC Bank Malaysia Berhad, during the year are as follows: -

	<i>Group and Bank</i>	
	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Executive Directors		
<u>Short-term employee benefits</u>		
Salary and other remuneration	<b>3,960</b>	4,234
Bonuses	<b>1,611</b>	954
Benefits-in-kind	<b>973</b>	695
	<b>6,544</b>	5,883
Post-employment benefits	<b>540</b>	893
Share-based payment	<b>1,445</b>	1,072
	<b>8,529</b>	7,848
Non-Executive Directors		
<u>Short-term employee benefits</u>		
Fees	<b>464</b>	332
Other remuneration	<b>-</b>	13
	<b>464</b>	345

(c) The number of directors of the Bank whose remuneration including benefits-in-kind, post-employment benefits and share-based payment for the financial year falls into the following bands:

	<i>Number of Directors</i>	
	<b>2007</b>	2006
Executive Directors		
RM5,300,001 - RM5,350,000	-	1
RM4,550,001 - RM4,600,000	<b>1</b>	-
RM2,650,001 - RM2,700,000	<b>1</b>	-
RM2,500,001 - RM2,550,000	-	1
RM1,250,001 - RM1,300,000	<b>1</b>	-
	<b>3</b>	2
Non-Executive Directors		
RM50,001 - RM100,000	<b>6</b>	6
	<b>6</b>	6

### 31 Capital Adequacy

	<i>Bank</i>	
	2007 RM'000	2006 RM'000
<b>Tier 1 capital</b>		
Paid-up ordinary share capital	114,500	114,500
Share premium	741,375	741,375
Capital redemption reserve	190,000	190,000
Retained profit	1,796,760	1,509,993
Other reserves	114,500	114,500
	<u>2,957,135</u>	<u>2,670,368</u>
Less: Deferred tax adjustments	(105,145)	(104,554)
Total Tier 1 capital	<u>2,851,990</u>	<u>2,565,814</u>
<b>Tier 2 capital</b>		
Subordinated bonds	1,000,000	-
Revaluation reserves	72,383	72,507
General allowance for bad and doubtful debts and financing	401,700	372,600
Total Tier 2 capital	<u>1,474,083</u>	<u>445,107</u>
Total capital	<u>4,326,073</u>	3,010,921
Less: Investment in subsidiaries	(21)	(21)
<b>Capital base</b>	<u>4,326,052</u>	<u>3,010,900</u>
Core capital ratio	10.0%	10.1%
Risk-weighted capital ratio	15.1%	11.9%
Core capital ratio (net of proposed dividend)	9.1%	9.1%
Risk-weighted capital ratio (net of proposed dividend)	14.2%	10.9%

Breakdown of gross risk-weighted assets in the various categories of risk-weights:

	<i>Bank</i>			
	2007		2006	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
0%	16,373,703	-	12,062,562	-
10%	264,455	26,446	327,586	32,759
20%	4,205,244	841,049	3,369,913	673,983
50%	9,899,366	4,949,682	8,562,107	4,281,053
100%	21,839,548	21,839,548	19,728,370	19,728,370
Total risk-weighted assets equivalent for market risk	<u>-</u>	<u>980,958</u>	<u>-</u>	<u>678,808</u>
	<u>52,582,316</u>	<u>28,637,683</u>	<u>44,050,538</u>	<u>25,394,973</u>

### 32 Commitments and Contingencies

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

The table below shows the contract or underlying principal amounts, credit equivalents amounts and risk weighted amounts of unmatured off-balance sheet transactions as at balance sheet date. The contract or underlying principle amounts indicate the volume of business outstanding and do not represent amount at risk.

	<i>Group and Bank</i>					
	2007			2006		
	Principal amount RM'000	Credit equivalent amount * RM'000	Risk weighted amount RM'000	Principal amount RM'000	Credit equivalent amount * RM'000	Risk weighted amount RM'000
Direct credit substitutes	1,478,440	1,478,440	1,462,396	713,289	713,289	672,985
Transaction-related contingent items	2,584,941	1,292,471	1,223,077	2,413,779	1,206,889	1,155,394
Short-term self-liquidating trade-related contingencies	438,700	87,740	73,252	436,088	87,218	71,399
Irrevocable commitments to extend credit:						
- Maturity not exceeding one year	19,642,907	-	-	17,263,576	-	-
- Maturity exceeding one year	634,924	317,462	317,462	915,711	457,856	457,856
Foreign exchange related contracts:						
- Less than one year	21,557,011	279,475	105,763	14,144,291	210,429	78,462
- One year to less than 5 years	1,799,862	175,660	73,788	668,208	52,944	24,917
- 5 years and above	1,915,480	278,531	127,469	-	-	-
Interest rate related contracts:						
- Less than one year	6,696,171	21,700	4,906	9,527,856	23,883	7,269
- One year to less than 5 years	17,441,588	444,377	181,798	12,788,488	338,967	134,989
- 5 years and above	1,677,521	110,951	50,038	498,225	30,440	13,673
Equity related contracts	811,894	139,293	62,256	597,531	66,859	33,062
Sell buy back agreement	286,870	286,870	286,870	120,025	120,025	120,025
	<b>76,966,309</b>	<b>4,912,970</b>	<b>3,969,075</b>	<b>60,087,067</b>	<b>3,308,799</b>	<b>2,770,031</b>

\* The credit equivalent amount is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

### 32 Commitments and Contingencies (continued)

These foreign exchange related contracts, interest rate related contracts and equity related contracts are off-balance sheet derivative financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, interest rates and security price) of the underlying instruments. The table below shows the Group's and the Bank's derivative financial instruments as at the balance sheet date. The contractual or underlying principal amount of these derivative financial instruments and their corresponding gross positive (derivative financial asset) and gross negative (derivative financial liability) fair values as at balance sheet date are analysed below.

	<i>Group and the Bank</i>					
	2007			2006		
	Contracted amount RM'000	Positive Fair value RM'000	Negative Fair value RM'000	Contracted amount RM'000	Positive Fair value RM'000	Negative Fair value RM'000
Foreign exchange related contracts						
- forward and future contracts	20,133,195	163,864	(181,512)	12,840,173	147,039	(148,195)
- options purchased	594,647	33,134	-	411,132	1,968	-
- options written	971,823	-	(35,395)	241,943	-	(2,237)
- swaps	3,572,688	143,654	(41,999)	1,319,251	27,095	(25,535)
Interest rate related contracts						
- forward and future contracts	2,956,898	1,237	(1,582)	4,706,358	3,783	(2,279)
- options	2,317,217	31,033	(33,500)	2,033,282	27,237	(29,732)
- swaps	20,541,165	70,619	(111,114)	16,074,929	72,982	(68,295)
Equity related contracts	811,894	102,780	(102,780)	597,531	33,474	(33,474)
		<b>546,321</b>	<b>(507,882)</b>		<b>313,578</b>	<b>(309,747)</b>
		Note 9	Note 18		Note 9	Note 18

#### Credit risk

Credit risk arises from the possibility that a counterparty may be unable to meet the terms of a contract in which the Bank has a gain position. As at 31 December 2007, the amount of credit risk, measured in terms of the cost to replace the profitable contracts, was RM434million (As at 31 December 2006: RM280million). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.



### 33 Interest/ Profit Rate Risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing level of market interest rates on its financial position and cash flows. The following table summarises the Bank's exposure to interest rate risk. The assets and liabilities at carrying amount are allocated to time bands by reference to the earlier of the next contractual repricing dates and maturity dates.

Bank 2007	Non-trading book					Non-interest sensitive RM'000	Trading book RM'000	Effective interest rate	
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000			Total RM'000	%
<b>ASSETS</b>									
Cash and short term funds	9,727,281	-	-	-	-	1,594,070	-	11,321,351	3.56
Securities purchased under resale agreements	879,502	979,077	-	-	-	-	-	1,858,579	3.50
Deposits and placements with banks and other financial institutions	-	1,440,854	-	8,099	-	-	-	1,448,953	4.00
Securities held for trading	-	-	-	-	-	-	1,236,193	1,236,193	3.71
Securities available-for-sale	659,360	898,549	1,313,304	1,296,330	6,525	98,449	-	4,272,517	3.69
Loans, advances and financing									
- performing	20,483,360	2,413,919	755,898	994,843	325,056	814,357	-	25,787,433	6.55
- non-performing *	-	-	-	-	-	219,691	-	219,691	-
Others	-	-	-	-	-	1,326,054	667,191	1,993,245	-
<b>TOTAL ASSETS</b>	<b>31,749,503</b>	<b>5,732,399</b>	<b>2,069,202</b>	<b>2,299,272</b>	<b>331,581</b>	<b>4,052,621</b>	<b>1,903,384</b>	<b>48,137,962</b>	
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>									
Deposits from customers	17,919,846	4,354,973	6,732,610	663,222	62,677	6,440,367	-	36,173,695	2.78
Deposits and placements of banks and other financial institutions	1,906,527	465,475	55,293	397,421	1,171	1,757,179	-	4,583,066	3.16
Bills and acceptances payable	57,297	65,067	-	-	-	505,366	-	627,730	3.30
Recourse obligation on loans sold to Cagamas Berhad	-	-	-	759,101	-	-	-	759,101	4.71
Subordinated bonds	-	-	-	-	1,000,000	-	-	1,000,000	4.70
Others	-	-	-	-	-	1,069,923	803,196	1,873,119	-
<b>Total Liabilities</b>	<b>19,883,670</b>	<b>4,885,515</b>	<b>6,787,903</b>	<b>1,819,744</b>	<b>1,063,848</b>	<b>9,772,835</b>	<b>803,196</b>	<b>45,016,711</b>	
Shareholders' funds	-	-	-	-	-	3,121,251	-	3,121,251	
<b>Total Liabilities and Shareholders' funds</b>	<b>19,883,670</b>	<b>4,885,515</b>	<b>6,787,903</b>	<b>1,819,744</b>	<b>1,063,848</b>	<b>12,894,086</b>	<b>803,196</b>	<b>48,137,962</b>	
On-balance sheet interest sensitivity gap	11,865,833	846,884	(4,718,701)	479,528	(732,267)	(8,841,465)	1,100,188	-	
Off-balance sheet interest sensitivity gap									
Interest rate contracts									
- futures	-	790,910	(800,910)	10,000	-	-	-	-	
- options	(72,800)	(306,885)	156,885	222,800	-	-	-	-	
- swaps	(1,166,983)	(296,659)	1,281,480	257,076	(26,307)	-	-	48,607	
<b>Total interest sensitivity gap</b>	<b>10,626,050</b>	<b>1,034,250</b>	<b>(4,081,246)</b>	<b>969,404</b>	<b>(758,574)</b>	<b>(8,841,465)</b>	<b>1,100,188</b>	<b>48,607</b>	

\* This is arrived after deducting specific allowance from non-performing loans.

### 33 Interest/ Profit Rate Risk (continued)

Bank 2006	Non-trading book						Trading book RM'000	Effective interest rate	
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		Total RM'000	%
<b>ASSETS</b>									
Cash and short term funds	5,803,102	-	-	-	-	311,243	-	6,114,345	3.67
Securities purchased under resale agreements	674,820	806,490	792,229	-	-	-	-	2,273,539	3.60
Deposits and placements with banks and other financial institutions	-	1,972,375	-	17,507	-	-	-	1,989,882	3.68
Securities held for trading	-	-	-	-	-	-	795,937	795,937	3.87
Securities available-for-sale	612,610	527,659	720,049	1,888,479	14,454	43,212	-	3,806,463	3.72
Loans, advances and financing									
- performing	19,461,601	1,902,625	503,647	1,131,363	419,732	658,963	-	24,077,931	6.88
- non-performing *	-	-	-	-	-	266,006	-	266,006	-
Others	-	-	-	-	-	1,349,370	329,277	1,678,647	-
<b>TOTAL ASSETS</b>	<b>26,552,133</b>	<b>5,209,149</b>	<b>2,015,925</b>	<b>3,037,349</b>	<b>434,186</b>	<b>2,628,794</b>	<b>1,125,214</b>	<b>41,002,750</b>	
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>									
Deposits from customers	16,374,525	3,497,782	6,033,105	669,024	169,181	5,226,919	-	31,970,536	2.91
Deposits and placements of banks and other financial institutions	1,054,089	297,444	26,614	4,950	2,763	400,159	-	1,786,019	3.33
Obligation on securities sold under repurchase agreements	1,660,739	-	-	-	-	-	-	1,660,739	2.93
Bills and acceptances payable	77,146	60,278	2,984	-	-	349,647	-	490,055	3.27
Recourse obligation on loans sold to Cagamas Berhad	-	-	81,689	818,062	-	-	-	899,751	4.57
Others	-	-	-	-	-	1,052,983	329,736	1,382,719	-
<b>Total Liabilities</b>	<b>19,166,499</b>	<b>3,855,504</b>	<b>6,144,392</b>	<b>1,492,036</b>	<b>171,944</b>	<b>7,029,708</b>	<b>329,736</b>	<b>38,189,819</b>	
Shareholders' funds	-	-	-	-	-	2,812,931	-	2,812,931	
<b>Total Liabilities and Shareholders' funds</b>	<b>19,166,499</b>	<b>3,855,504</b>	<b>6,144,392</b>	<b>1,492,036</b>	<b>171,944</b>	<b>9,842,639</b>	<b>329,736</b>	<b>41,002,750</b>	
On-balance sheet interest sensitivity gap	7,385,634	1,353,645	(4,128,467)	1,545,313	262,242	(7,213,845)	795,478	-	
Off-balance sheet interest sensitivity gap									
Interest rate contracts									
- futures	-	(250,833)	344,833	(94,000)	-	-	-	-	
- options	720,897	196,255	(130,601)	(786,551)	-	-	-	-	
- swaps	(605,675)	344,814	(264,514)	542,390	(19,800)	-	-	(2,785)	
<b>Total interest sensitivity gap</b>	<b>7,500,856</b>	<b>1,643,881</b>	<b>(4,178,749)</b>	<b>1,207,152</b>	<b>242,442</b>	<b>(7,213,845)</b>	<b>795,478</b>	<b>(2,785)</b>	

\* This is arrived at after deducting specific allowance from non-performing loans.

### 34 Collateral

In the normal course of business, the Bank pledges assets to raise liabilities and accepts assets as collateral that are permitted for resale or repledge. Collateral pledged and received are mainly via repurchase agreements and reverse repurchase agreements.

	<i>Bank</i>	
	2007 RM'000	2006 RM'000
<b>Carrying amount of assets pledged as collateral</b>		
- Collateral pledged for repurchase agreements	<b>286,870</b>	1,708,280
<b>Fair value of assets accepted as collateral and collateral sold/ repledged</b>		
- Collateral accepted for reverse repurchase agreement	<b>1,858,579</b>	2,303,513
- Collateral sold	<b>248,787</b>	11,969

### 35 Fair Values of Financial Assets and Liabilities

The following table summarises the fair value of the financial assets and liabilities carried on the balance sheet as at 31 December.

	2007 Carrying amount RM'000	2007 Fair Value RM'000	2006 Carrying amount RM'000	2006 Fair Value RM'000
<b>Financial Assets</b>				
Cash and short term funds	<b>11,321,351</b>	<b>11,321,351</b>	6,114,345	6,114,345
Securities purchased under resale agreements	<b>1,858,579</b>	<b>1,858,579</b>	2,273,539	2,273,539
Deposits and placements with banks and other financial institutions	<b>1,448,953</b>	<b>1,448,953</b>	1,989,882	1,989,882
Securities held-for-trading	<b>1,236,193</b>	<b>1,236,193</b>	795,937	795,937
Securities available-for-sale	<b>4,272,517</b>	<b>4,280,147</b>	3,806,463	3,810,062
Loans, advances and financing	<b>26,007,124</b>	<b>25,929,798</b>	24,343,937	24,269,662
<b>Financial Liabilities</b>				
Deposits from customers	<b>36,173,695</b>	<b>36,239,687</b>	31,970,536	31,983,863
Deposits and placements of banks and other financial institutions	<b>4,583,066</b>	<b>4,589,051</b>	1,786,019	1,786,010
Obligations on securities sold under repurchase agreements	-	-	1,660,739	1,660,739
Bills and acceptances payable	<b>627,730</b>	<b>627,730</b>	490,055	490,055
Recourse obligation on loans sold to Cagamas Berhad	<b>759,101</b>	<b>767,376</b>	899,751	909,689
Subordinated bonds	<b>1,000,000</b>	<b>994,917</b>	-	-

### **35 Fair Values of Financial Assets and Liabilities (continued)**

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The methods and assumptions used in estimating the fair values of financial instruments are as follows:

#### **Cash and short term funds**

#### **Securities purchased under resale agreements**

#### **Deposits and placements with banks and other financial institutions**

#### **Obligations on securities sold under repurchase agreements**

#### **Bills and acceptances payable**

The carrying amounts approximate fair value due to their relatively short-term nature.

#### **Securities**

Listed equity shares are valued at the quoted market price whilst unlisted equity shares whose fair value cannot be reliably measured are stated at cost. Fair value of the unlisted equity shares is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that instrument or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. Unlisted equity shares, whose fair value can be reliably measured, are valued using an appropriate valuation model.

Fair values for other securities are estimated using market prices for these financial instruments. Where market prices are not available, fair values have been estimated using prices for financial instruments with similar characteristics, or a suitable valuation technique where practicable to do so.

#### **Loans, advances and financing**

For personal and commercial loans and advances which mature or reprice after six months, fair value is principally estimated by discounting anticipated cash flows (including interest at contractual rates). Performing loans are grouped to the extent possible, into homogenous pools segregated by maturity within each pool. In general, cash flows are discounted using current market rates for instruments with similar maturity, repricing and credit risk characteristics. For non-performing loans, the fair value is the carrying value of the loans, net of specific allowances. General allowances are deducted from the fair value of loans, advances and financing.

#### **Deposits from customers**

#### **Deposits and placements of banks and other financial institutions**

#### **Recourse obligation on loans sold to Cagamas Berhad**

Deposits, placements and obligations which mature or reprice after six months are grouped by residual maturity. Fair value is estimated using discounted cash flows, applying either market rates, where applicable, or current rates offered for deposits of similar remaining maturities.

#### **Unrecognised financial instruments**

The valuation of financial instruments not recognised in the balance sheet reflects their current market rates at the balance sheet date. The contracted amount and fair value of financial instruments not recognised in the balance sheet as at 31 December are disclosed in Note 32.

#### **Subordinated bonds**

The fair value of subordinated bonds are estimated based on discounted cash flows using rates currently offered for debt instruments of similar remaining maturities and credit grading.

### **36 Lease Commitments**

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The Bank and the group have lease commitments in respect of rented premises and hired equipment, all of which are classified as operating leases. A summary of the non-cancellable long term commitments net of sub-leases are as follows:

<b>Year</b>	<i>Group and Bank</i>	
	<b>RM'000</b>	
Less than one year		<b>15,711</b>
Between one and five years		<b>25,543</b>
More than five years		<b>220</b>

### **37 Capital Commitments**

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	<i>Group and Bank</i>	
	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Capital expenditure:		
- Authorised and contracted for	<b>4,079</b>	8,776
- Authorised but not contracted for	<b>2,132</b>	1,963
	<b><u>6,211</u></b>	<u>10,739</u>

### **38 Equity-based Compensation**

The Bank participated in the following cash settled share compensation plans operated by the HSBC Group for the acquisition of HSBC Holdings plc shares.

**a. Executive Share Option Scheme/Group Share Option Plan**

The HSBC Holdings Group Share Option Plan, and previously the HSBC Holdings Executive Share Option Scheme, are discretionary share incentive plans under which HSBC employees, based on performance criteria and potential, are granted options to acquire HSBC Holdings ordinary shares. The exercise price of options granted under the Group Share Option Plan, is the higher of the average market value of the ordinary shares on the five business days prior to the grant of the option or the market value of the ordinary shares on the date of grant of the option. The exercise price of options granted under the Executive Share Option Scheme was the market value of the ordinary shares on the business day prior to the grant of the option. They are normally exercisable between the third and tenth anniversary of the date of grant. The cost of the awards is amortised over the vesting period.

Movements in the number of share options held by employees are as follows:

Year	<b>2007</b>	<b>Weighted average exercise price</b>	2006	Weighted average exercise price
	<b>Number</b>	<b>price</b>	Number	price
	('000)	£	('000)	£
Outstanding at 1 January	<b>1,853</b>	<b>7.87</b>	2,195	7.85
Exercised in the year	<b>(65)</b>	<b>7.54</b>	(318)	7.72
Lapsed in the year	<b>(77)</b>	<b>7.86</b>	(24)	8.06
Outstanding at 31 December	<b>1,711</b>	<b>7.68</b>	1,853	7.87
Options vested at 31 December	<b>-</b>		1,232	
	<b>2007</b>		2006	
	<b>RM'000</b>		<b>RM'000</b>	
Compensation cost (written back)/ recognised during the year	<b>(904)</b>		10,618	

The Group Share Option Plan ceased in 2005 and is replaced by the Achievement Shares Award. The existing share options held by employees granted under Group Share Option Plan prior to 2005 will continue until they are exercised or lapsed.

### 38 Equity-based Compensation (continued)

#### b. Savings-Related Share Option Schemes

The Savings-Related Share Option Schemes are all-employee share plans under which eligible HSBC employees are granted options to acquire HSBC Holdings ordinary shares. Employees may make monthly contributions up to £250 over a period of one, three or five years which may be used to exercise the options; alternatively the employee may elect to have the savings repaid in cash. The options are exercisable within three months following the first anniversary of the commencement of a one-year savings contract or within six months following either the third or the fifth anniversary of the commencement of three-year or five-year savings contracts. The exercise price is set at a discount of up to 20 per cent to the market value of the ordinary shares at the date of grant. The cost of the awards is amortised over the vesting period.

Movements in the number of share options held by employees are as follows:

Year	2007 Number (‘000)	Weighted average exercise price £	2006 Number (‘000)	Weighted average exercise price £
Outstanding at 1 January	1,712	6.60	1,786	6.19
Granted in the year	771	7.09	547	7.67
Exercised in the year	(384)	6.81	(528)	5.44
Lapsed in the year	(162)	7.29	(83)	6.78
Transfers	(5)	7.07	(10)	6.50
Outstanding at 31 December	<u>1,932</u>	<u>7.07</u>	<u>1,712</u>	<u>6.60</u>
Options vested at 31 December	<u>368</u>		<u>515</u>	
	2007 RM’000		2006 RM’000	
Compensation cost recognised during the year	<u>9,455</u>		<u>7,438</u>	

### 38 Equity-based Compensation (continued)

#### c. Restricted Share Plan

The HSBC Holdings Restricted Share Plan is intended to align the interests of executives with those of shareholders by linking executive awards to the creation of superior shareholder value. This is achieved by focusing on predetermined targets. The cost of the conditional awards is recognised through an annual charge based on the likely level of vesting of shares, apportioned over the period of service to which the award relates.

Year	2007 Number (‘000)	2006 Number (‘000)
Outstanding at 1 January	249	217
Additions during the year	35	54
Released in the year	(195)	(22)
Outstanding at 31 December	<u>89</u>	<u>249</u>
	2007 RM’000	2006 RM’000
Compensation cost (written back)/ recognised during the year	<u>(216)</u>	<u>2,400</u>

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan is £8.71 (2006: £8.66). The closing price of the HSBC share at 31 December 2007 was £8.42 (2006: £9.31). The weighted average remaining vesting period as at 31 December 2007 was 2.83 years (2006: 1.31 years).

#### d. Achievement Share Award

Achievement Share Award was introduced in 2005 to replace the Group Share Option Plan. HSBC Holdings ordinary shares are awarded to senior executives, without corporate performance conditions and will be released to the individual after three years, provided participants remain continuously employed within the HSBC Group. Additional awards are made during the three-year life of the award. These represent the equivalent value of dividends reinvested in shares. At the end of three years, the original Award together with the Additional Share Awards (added to the original award) will be released. The cost of the awards is recognised through an annual charge based on the cost of the shares purchased, apportioned over a period of three years to which the award relates.

Year	2007 Number (‘000)	2006 Number (‘000)
Outstanding at 1 January	182	88
Additions during the year	143	94
Outstanding at 31 December	<u>325</u>	<u>182</u>
	2007 RM’000	2006 RM’000
Compensation cost recognised during the year	<u>5,618</u>	<u>3,396</u>

The weighted average purchase price for all shares purchased by HSBC for awards under the Achievement Shares Award is £9.00 (2006: £8.99). The closing price of the HSBC share at 31 December 2007 was £8.42 (2006: £9.31). The weighted average remaining vesting period as at 31 December 2007 was 2.17 years (2006: 2.52 years).



### 39 Change in Accounting Policy

#### (a) FRS 117: Leases

##### Leasehold land held for own use

Prior to 1 January 2007, lease of land held for own use was classified as property, plant and equipment and was stated at cost less accumulated depreciation and impairment loss. The adoption of the revised FRS 117: Leases in 2007 resulted in a change in accounting policy relating to the classification of leases of land. Under FRS 117, lease of land and building are classified as operating or finance leases in the same way as leases of other assets. The land and building elements of a lease of land and building are considered separately for the purposes of lease classification. Leasehold land held for own use is now classified as operating lease. The up-front payments made are allocated between the land and the building elements in proportion to the relative fair values for leasehold interests in the land and building element of the lease at the inception of the lease. The up-front payment represents prepaid lease payment and is amortised on a straight-line basis over the remaining lease term.

The Group and the Bank have applied the change in accounting policy in respect of leasehold land in accordance with the transitional provisions of FRS 117. At 1 January 2007, the unamortised carrying amount of leasehold land was classified as prepaid lease payments. The reclassification of leasehold land as prepaid lease payments has been accounted for retrospectively. Certain comparatives of the balance sheets of the Group and the Bank as at 31 December 2006 have been restated as set out in Note 39 (b)(i). There were no effects on the income statements of the Group and the Bank for the financial year ended 31 December 2007.

#### (b) Comparatives Figures

The presentation and classification of items in the current financial statements have been consistent with the previous financial year except for the following:

##### (i) Changes in accounting policy explained in Note 39 (a)

	<i>Group and Bank</i>	
	As restated	As previously stated
	RM'000	RM'000
Balance Sheet as at 31 December 2006		
Prepaid lease payments	21,494	-
Property, plant and equipment	281,893	303,387

	<i>Group and Bank</i>	
	As restated	As previously stated
	RM'000	RM'000
Other operating expenses for the financial year ended 31 December 2006 (Note 26)		
Amortisation of prepaid lease payments	485	-
Depreciation of property, plant and equipment	27,770	28,255

**39 Change in Accounting Policy (continued)**

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**(b) Comparatives Figures (continued)**

- (ii) Reclassification to conform to the current years' presentation.

	<i>Group and Bank</i>	
	As restated	As previously stated
<i>Balance Sheet</i>	RM'000	RM'000
<i>as at 31 December 2006</i>		
Deposits from customers	31,970,536	31,822,229
Deposits and placements of banks and other financial institutions	<u>1,786,019</u>	<u>1,934,326</u>

#### 40 Operations of Islamic Banking

##### Balance Sheet as at 31 December 2007 (21 Zulhijjah 1428)

		2007	2006
<b>Assets</b>	<i>Note</i>	<b>RM'000</b>	RM'000
Cash and short term funds	<i>(a)</i>	<b>1,139,046</b>	975,534
Deposits and placements with banks and other financial institutions	<i>(b)</i>	-	160,000
Securities available-for-sale	<i>(c)</i>	<b>821,927</b>	1,040,407
Financing, advances and other loans	<i>(d)</i>	<b>2,961,465</b>	3,080,253
Other assets	<i>(f)</i>	<b>6,879</b>	11,096
Statutory deposits with Bank Negara Malaysia		<b>77,100</b>	89,600
Equipment		<b>397</b>	268
Intangible assets		<b>213</b>	552
Deferred tax asset	<i>(g)</i>	<b>15,584</b>	15,603
<b>Total Assets</b>		<b><u>5,022,611</u></b>	<b><u>5,373,313</u></b>
<b>Liabilities</b>			
Deposits from customers	<i>(h)</i>	<b>3,323,111</b>	3,747,782
Deposits and placements of banks and other financial institutions	<i>(i)</i>	<b>5,772</b>	93,830
Other liabilities	<i>(j)</i>	<b>1,046,751</b>	958,576
Provision for taxation and zakat	<i>(k)</i>	<b>25,833</b>	20,683
<b>Total Liabilities</b>		<b><u>4,401,467</u></b>	<b><u>4,820,871</u></b>
<b>Islamic Banking Capital Funds</b>			
Funds allocated from Head Office		<b>430,000</b>	430,000
Reserves	<i>(l)</i>	<b>191,144</b>	122,442
<b>Islamic Banking Capital Funds</b>		<b><u>621,144</u></b>	<b><u>552,442</u></b>
<b>Total Liabilities and Islamic Banking Capital Funds</b>		<b><u>5,022,611</u></b>	<b><u>5,373,313</u></b>
Commitments and Contingencies	<i>(v)</i>	<b>327,901</b>	311,526

*The accompanying sub-notes form an integral part of the Financial Statements.*

#### 40 Operations of Islamic Banking (continued)

##### Income Statement for the Year Ended 31 December 2007 (21 Zulhijjah 1428)

	<i>Note</i>	<b>2007</b> <b>RM'000</b>	2006 RM'000
Income derived from investment of depositors' funds and others	<i>(m)</i>	<b>286,833</b>	258,252
Allowance for losses on financing	<i>(n)</i>	<b>(36,389)</b>	(23,713)
Profit equalisation reserve	<i>(j)</i>	<b>(1,000)</b>	(3,000)
Total distributable income		<b>249,444</b>	231,539
Income attributable to depositors	<i>(o)</i>	<b>(151,315)</b>	(156,397)
Income attributable to the Bank		<b>98,129</b>	75,142
Income derived from investment of Islamic banking capital funds	<i>(p)</i>	<b>64,942</b>	47,294
Total net income		<b>163,071</b>	122,436
Other operating expenses	<i>(q)</i>	<b>(66,090)</b>	(57,957)
Profit before taxation and zakat		<b>96,981</b>	64,479
Taxation and zakat	<i>(s)</i>	<b>(26,538)</b>	(18,383)
Profit after taxation and zakat		<b>70,443</b>	46,096

*The accompanying sub-notes form an integral part of the Financial Statements.*

**40 Operations of Islamic Banking (continued)**

**Statement of Changes in Equity for the Year Ended 31 December 2007 (21 Zulhijjah 1428)**

	← Non-distributable →	Distributable			
	<i>Funds allocated from Head Office</i>	<i>Available- for-sale reserve</i>	<i>Retained profits</i>	<i>Total reserves</i>	<i>Total</i>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Balance as at 1 January 2006	430,000	892	74,197	75,089	505,089
Net unrealised gains on revaluation	-	1,302	-	1,302	1,302
Net gains transferred to income statement		(45)		(45)	(45)
Net gains recognised directly in equity	-	1,257	-	1,257	1,257
Net profit for the year	-	-	46,096	46,096	46,096
Total recognised income and expense for the year	-	1,257	46,096	47,353	47,353
Balance as at 31 December 2006	430,000	2,149	120,293	122,442	552,442
Balance as at 1 January 2007	430,000	2,149	120,293	122,442	552,442
Net unrealised losses on revaluation	-	(1,522)	-	(1,522)	(1,522)
Net gains transferred to income statement	-	(219)	-	(219)	(219)
Net gains recognised directly in equity	-	(1,741)	-	(1,741)	(1,741)
Net profit for the year	-	-	70,443	70,443	70,443
Total recognised income and expense for the year	-	(1,741)	70,443	68,702	68,702
Balance as at 31 December 2007	430,000	408	190,736	191,144	621,144

*The accompanying sub-notes form an integral part of the Financial Statements.*

#### 40 Operations of Islamic Banking (continued)

##### Cash Flow Statement for the Year Ended 31 December 2007 (21 Zulhijjah 1428)

	2007 RM'000	2006 RM'000
<b>Cash Flows from Operating Activities</b>		
Profit before taxation and zakat	96,981	64,479
Adjustments for :		
Equipment written off	-	36
Intangible assets written off	-	4
Depreciation of equipment	133	85
Amortisation of intangible assets	339	538
Operating profit before changes in operating assets	<u>97,453</u>	<u>65,142</u>
(Increase)/ Decrease in operating assets		
Deposits and placements with banks and other financial institutions	160,000	(70,000)
Financing, advances and other loans	118,788	(226,735)
Other assets	4,217	(18,165)
Statutory deposits with Bank Negara Malaysia	12,500	8,900
Increase/ (Decrease) in operating liabilities		
Deposits from customers	(331,695)	142,384
Deposits and placements of banks and other financial institutions	(181,034)	(83,318)
Other liabilities	67,492	11,589
Net cash used in operating activities	<u>(52,279)</u>	<u>(170,203)</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of equipment	(262)	(47)
Purchase of intangible assets	-	(5)
Securities available-for-sale	216,053	(12,066)
Net cash generated from/ (used in) investing activities	<u>215,791</u>	<u>(12,118)</u>
<b>Net increase/ (decrease) in Cash and Cash Equivalents</b>	<b>163,512</b>	<b>(182,321)</b>
<b>Cash and Cash Equivalents at beginning of year</b>	<b>975,534</b>	<b>1,157,855</b>
<b>Cash and Cash Equivalents at end of year</b>	<b><u>1,139,046</u></b>	<b><u>975,534</u></b>
<b>Analysis of Cash and Cash Equivalents</b>		
Cash and short-term funds	<u>1,139,046</u>	<u>975,534</u>

*The accompanying sub-notes form an integral part of the Financial Statements.*

**40 Operations of Islamic Banking (continued)**

**(a) Cash and Short Term Funds**

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Cash and balances with banks and other financial institutions	<b>676</b>	534
Money at call and deposit placements maturing within one month	<b>1,138,370</b>	975,000
	<b><u>1,139,046</u></b>	<u>975,534</u>

**(b) Deposits and Placements with Banks and Other Financial Institutions**

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Bank Negara Malaysia	<b>-</b>	160,000

**(c) Securities Available-for-Sale**

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Money market instruments:		
Malaysian Government Islamic Treasury bills	-	39,408
Malaysian Government Islamic bonds	<b>354,498</b>	373,915
Negotiable Islamic instruments of deposit	<b>19,992</b>	9,990
Islamic Khazanah bonds	<b>266,072</b>	262,200
Islamic Cagamas bonds	-	3,994
	<b><u>640,562</u></b>	<u>689,507</u>
Unquoted securities:		
Islamic debt securities	<b>181,365</b>	350,900
	<b><u>821,927</u></b>	<u>1,040,407</u>

The maturity structure of money market instruments held as securities available-for-sale is as follows:

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Maturing within one year	<b>237,438</b>	78,034
One year to three years	<b>403,124</b>	611,473
	<b><u>640,562</u></b>	<u>689,507</u>

**40 Operations of Islamic Banking (continued)**

**(d) Financing, Advances and Other Loans**

**(i) By type**

	2007	2006
	RM'000	RM'000
Term financing		
House financing	86,295	104,471
Hire purchase receivables	250,807	190,341
Lease receivables	23,055	30,339
Other term financing	1,379,211	1,367,673
Claims on customers under acceptance credits	1,416,825	1,596,149
Credit /charge cards	1,105	1,538
Less: Unearned income	<u>(131,370)</u>	<u>(142,815)</u>
	<b>3,025,928</b>	<b>3,147,696</b>
Less: Allowance for bad and doubtful financing :		
- General	(45,525)	(48,740)
- Specific	<u>(18,938)</u>	<u>(18,703)</u>
Total net financing, advances and other loans	<b><u>2,961,465</u></b>	<b><u>3,080,253</u></b>

**(ii) By contract**

	2007	2006
	RM'000	RM'000
Bai Bithaman Ajil ( <i>deferred payment sale</i> )	468,678	534,376
Ijarah ( <i>operating lease</i> )	22,162	28,749
Ijarah Thumma Al-Bai ( <i>hire purchase / finance lease</i> )	222,798	169,010
Murabahah ( <i>cost-plus</i> )	1,002,634	1,222,689
Bai Al-Inah ( <i>sell and buy back</i> )	828,204	793,322
Others	<u>481,452</u>	<u>399,550</u>
	<b>3,025,928</b>	<b>3,147,696</b>

**(iii) By type of customer**

	2007	2006
	RM'000	RM'000
Domestic business enterprises		
- Small medium enterprises	309	968
- Others	2,108,985	2,258,307
Individuals	912,870	878,439
Foreign entities	<u>3,764</u>	<u>9,982</u>
	<b>3,025,928</b>	<b>3,147,696</b>



**40 Operations of Islamic Banking (continued)**

**(d) Financing, Advances and Other Loans (continued)**

**(iv) By profit rate sensitivity**

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Fixed rate		
House financing	<b>70,157</b>	83,945
Hire purchase receivables	<b>222,798</b>	169,011
Other financing	<b>2,731,008</b>	2,893,202
Variable rate		
Other financing	<b>1,965</b>	1,538
	<b><u>3,025,928</u></b>	<u>3,147,696</u>

**(v) By sector**

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Agriculture, hunting, forestry and fishing	<b>180,737</b>	258,335
Mining and quarrying	<b>6,056</b>	2,198
Manufacturing	<b>1,216,464</b>	1,430,224
Electricity, gas and water	<b>9,043</b>	5,921
Construction	<b>28,007</b>	38,016
Real estate	<b>9,541</b>	12,563
Purchase of landed property:		
- Residential	<b>70,157</b>	83,945
- Non-residential	<b>9,704</b>	7,751
Wholesale & retail trade and restaurants & hotels	<b>351,957</b>	367,010
Transport, storage and communication	<b>82,720</b>	48,697
Finance, insurance and business services	<b>136,438</b>	10,344
Consumption credit	<b>844,359</b>	802,561
Others	<b>80,745</b>	80,131
	<b><u>3,025,928</u></b>	<u>3,147,696</u>

**(vi) By maturity structure**

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Maturing within one year	<b>1,466,886</b>	1,623,977
One year to three years	<b>435,664</b>	375,700
Three years to five years	<b>842,295</b>	824,741
Over five years	<b>281,083</b>	323,278
	<b><u>3,025,928</u></b>	<u>3,147,696</u>

#### 40 Operations of Islamic Banking (continued)

##### (e) Non-Performing Financing (NPF)

##### (i) Movements in non-performing financing, advances and other loans (including income receivables)

	2007 RM'000	2006 RM'000
At beginning of year	22,183	12,805
Classified as non-performing during the year	87,200	21,692
Reclassified as performing	(631)	(399)
Amount recovered	(6,214)	(4,073)
Amount written off	(40,719)	(7,842)
Transferred	(37,498)	-
At end of year	<u>24,321</u>	<u>22,183</u>
Specific allowance	<u>(18,938)</u>	<u>(18,703)</u>
Net non-performing financing, advances and other loans	<u>5,383</u>	<u>3,480</u>
Ratio of net non-performing financing, advances and other loans to net financing, advances and other loans	<u>0.2%</u>	<u>0.1%</u>

##### (ii) Movements in allowance for bad and doubtful financing

	2007 RM'000	2006 RM'000
<b>General allowance</b>		
At beginning of year	48,740	43,770
Allowance made during the year	535	4,970
Allowance written back	(3,750)	-
At end of year	<u>45,525</u>	<u>48,740</u>
As % of total financing less specific allowance	<u>1.5%</u>	<u>1.5%</u>

	2007 RM'000	2006 RM'000
<b>Specific allowance</b>		
At beginning of year	18,703	7,617
Allowance made during the year	47,487	23,716
Amount recovered	(6,697)	(4,926)
Amount written off	(40,555)	(7,704)
At end of year	<u>18,938</u>	<u>18,703</u>

##### (iii) Non-performing financing by sector

	2007 RM'000	2006 RM'000
Manufacturing	1,526	5,462
Real estate	232	-
Purchase of landed property:		
- Residential	2,152	2,081
Wholesale & retail trade and restaurants & hotels	-	1,195
Transport, storage and communication	-	885
Consumption credit	18,866	11,016
Others	1,545	1,544
	<u>24,321</u>	<u>22,183</u>

**40 Operations of Islamic Banking (continued)**

**(f) Other Assets**

	2007	2006
	RM'000	RM'000
Settlement due from Head Office	-	1,589
Income receivable	6,692	9,436
Other receivables, deposits and prepayments	187	71
	<u>6,879</u>	<u>11,096</u>

**(g) Deferred Tax Asset**

	2007	2006
	RM'000	RM'000
Deferred tax assets	<u>15,584</u>	<u>15,603</u>

The recognised deferred tax assets are as follows:

	2007	2006
	RM'000	RM'000
Lease receivables		
- capital allowance	1,557	1,117
Available-for-sale reserve	(151)	(837)
Allowances		
- general allowance	12,292	13,647
- others	1,886	1,676
	<u>15,584</u>	<u>15,603</u>

**(h) Deposits from Customers**

**(i) By type of deposit**

	2007	2006
	RM'000	RM'000
Non-Mudharabah Fund		
Demand deposits	87,528	62,780
Savings deposits	382,606	271,085
	<u>470,134</u>	<u>333,865</u>
Mudharabah Fund		
General investment deposits	2,852,977	3,413,917
	<u>3,323,111</u>	<u>3,747,782</u>

The maturity structure of general investment deposits is as follows:

	2007	2006
	RM'000	RM'000
Due within six months	2,502,289	3,107,040
Six months to one year	349,440	304,234
One year to three years	959	2,353
Three years to five years	289	290
	<u>2,852,977</u>	<u>3,413,917</u>

**(ii) By type of customer**

	2007	2006
	RM'000	RM'000
Government and statutory bodies	129,263	92,209
Business enterprises	1,671,061	2,309,587
Individuals	1,320,548	1,231,061
Others	202,239	114,925
	<u>3,323,111</u>	<u>3,747,782</u>

**40 Operations of Islamic Banking (continued)**

**(i) Deposits and Placements of Banks and Other Financial Institutions**

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Mudharabah Fund		
Licensed Islamic banks	-	67,500
Licensed banks	-	25,000
Bank Negara Malaysia	<b>5,740</b>	1,330
Other financial institutions	<b>32</b>	-
	<u><b>5,772</b></u>	<u>93,830</u>

**(j) Other Liabilities**

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Special placement deposits by Head Office	<b>920,792</b>	920,792
Settlement due to Head Office	<b>52,838</b>	-
Profit equalisation reserve	<b>5,700</b>	4,700
Profit payable	<b>21,206</b>	19,738
Other creditors and accruals	<b>46,215</b>	13,346
	<u><b>1,046,751</b></u>	<u>958,576</u>

Movement in profit equalisation reserve is as follows:

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
At beginning of year	<b>4,700</b>	1,700
Provided in the financial year	<b>1,000</b>	3,000
At end of year	<u><b>5,700</b></u>	<u>4,700</u>

**(k) Provision for Taxation and Zakat**

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Taxation	<b>25,763</b>	20,683
Zakat	<b>70</b>	-
	<u><b>25,833</b></u>	<u>20,683</u>

**(l) Reserves**

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Retained profits	<b>190,736</b>	120,293
Available-for-sale reserve	<b>408</b>	2,149
	<u><b>191,144</b></u>	<u>122,442</u>

**40 Operations of Islamic Banking (continued)**

**(m) Income Derived from Investment of Depositors' Funds and Others**

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Income derived from investment of:		
(i) general investment deposits	<b>215,483</b>	186,920
(ii) specific investment deposits	<b>36,948</b>	42,249
(iii) other deposits	<b>34,402</b>	29,083
	<b><u>286,833</u></b>	<u>258,252</u>

(i) Income derived from investment of general investment deposits

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
<u>Finance income and hibah:</u>		
Financing, advances and other loans	<b>177,491</b>	148,777
Money at call and deposit with financial institutions	<b>35,964</b>	36,718
Total finance income and hibah	<b><u>213,455</u></b>	<u>185,495</u>
<u>Other operating income</u>		
Net gain from dealing in foreign currency	<b>2,028</b>	1,425
	<b><u>215,483</u></b>	<u>186,920</u>

(ii) Income derived from investment of specific investment deposits

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
<u>Finance income and hibah:</u>		
Available-for-sale securities	<b>26,959</b>	31,603
Accretion of discount less amortisation of premium	<b>9,989</b>	10,646
Total finance income and hibah	<b><u>36,948</u></b>	<u>42,249</u>

**40 Operations of Islamic Banking (continued)**

**(m) Income Derived from Investment of Depositors' Funds and Others (continued)**

(iii) Income derived from investment of other deposits

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
<u>Finance income and hibah:</u>		
Financing, advances and other loans	<b>28,337</b>	23,148
Money at call and deposit with financial institutions	<b>5,741</b>	5,713
Total finance income and hibah	<b>34,078</b>	28,861
<u>Other operating income</u>		
Net gain from dealing in foreign currency	<b>324</b>	222
	<b>34,402</b>	29,083

**(n) Allowance for Losses on Financing**

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Allowance for bad and doubtful debts on financing:		
(a) Specific allowance		
- Made in the financial year	<b>47,487</b>	23,716
- Written back	<b>(6,697)</b>	(4,926)
(b) General allowance		
- Made in the financial year	<b>535</b>	4,970
- Written back	<b>(3,750)</b>	-
Bad debts on loans and financing		
- Recovered	<b>(1,495)</b>	(170)
- Written off	<b>309</b>	123
	<b>36,389</b>	23,713

**(o) Income Attributable to Depositors**

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Deposits from customers		
- Mudharabah Fund	<b>106,480</b>	117,765
- Non-Mudharabah Fund	<b>6,842</b>	3,867
Deposits and placements of banks and other financial institutions		
- Mudarabah Fund	<b>5,344</b>	2,113
Special placement deposits by Head Office	<b>32,649</b>	32,652
	<b>151,315</b>	156,397

**40 Operations of Islamic Banking (continued)**

**(p) Income Derived from the Investment of Islamic Banking Capital Funds**

	2007	2006
	RM'000	RM'000
<u>Financing income and hibah:</u>		
Financing, advances and other loans	31,927	21,867
Money at call and deposit with financial institutions	6,469	5,397
Total finance income and hibah	<u>38,396</u>	<u>27,264</u>
<u>Other operating income</u>		
Fees and commission	25,701	19,821
Net gain from dealing in foreign currency	365	209
Other income	480	-
	<u>64,942</u>	<u>47,294</u>

The above fees and commissions were derived from the following major contributors:

Service charges and fees	18,152	15,743
Agency fees	2,247	2,814
Cards	517	861

**(q) Other operating expenses**

	2007	2006
	RM'000	RM'000
Personnel expenses	26,082	18,468
Promotion and marketing related expenses	4,141	1,286
Establishment related expenses	2,492	3,396
General administrative expenses	33,375	34,807
	<u>66,090</u>	<u>57,957</u>

**(r) Shariah Committee's Remuneration**

	2007	2006
	RM'000	RM'000
Shariah Committee	<u>113</u>	<u>94</u>

#### **40 Operations of Islamic Banking (continued)**

##### **(s) Taxation and Zakat**

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Malaysian income tax	<b>25,763</b>	20,683
Deferred tax		
Origination and reversal of temporary differences	<b>705</b>	(2,355)
	<b>26,468</b>	18,328
Zakat	<b>70</b>	55
	<b>26,538</b>	18,383

*A numerical reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate is as follows:*

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Profit before taxation	<b>96,981</b>	64,479
Income tax using Malaysian tax rates (27%) (2006: 28%)	<b>26,185</b>	18,054
Non-deductible expenses	<b>283</b>	274
	<b>26,468</b>	18,328

##### **(t) Income from Islamic Banking Operations**

For consolidation with the conventional operations, income from Islamic banking operations comprises the following items:

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
Income derived from investment of depositors' funds and others	<b>286,833</b>	258,252
Profit equalisation reserves	<b>(1,000)</b>	(3,000)
Income attributable to the depositors	<b>(151,315)</b>	(156,397)
Income attributable to special placement deposits by Head Office	<b>32,649</b>	32,652
Profit from structured deposits earned from Head Office	<b>(683)</b>	-
	<b>166,484</b>	131,507
Income derived from the investment of Islamic banking capital funds	<b>64,942</b>	47,294
<b>Income from Islamic banking operations</b>	<b>231,426</b>	178,801



**40 Operations of Islamic Banking (continued)**

**(u) Capital Adequacy**

The capital adequacy ratios of the Islamic Banking Operation are as follows:

	<b>2007</b>	2006
	<b>RM'000</b>	RM'000
<b><u>Tier 1 capital</u></b>		
Funds allocated from Head Office	<b>430,000</b>	430,000
Retained profits	<b>190,736</b>	120,293
	<b>620,736</b>	550,293
Less: Deferred tax adjustments	<b>(15,735)</b>	(16,440)
Total Tier 1 capital	<b>605,001</b>	533,853
<b><u>Tier 2 capital</u></b>		
General allowance for bad and doubtful debts and financing	<b>45,525</b>	48,740
Total Tier 2 capital	<b>45,525</b>	48,740
<b>Capital base</b>	<b>650,526</b>	582,593
Core capital ratio	<b>17.5%</b>	14.6%
Risk-weighted capital ratio	<b>18.8%</b>	15.9%

Breakdown of gross risk-weighted assets in the various categories of risk-weights:

	<b>2007</b>		2006	
	<b>Principal</b>	<b>Risk-weighted</b>	Principal	Risk-weighted
	<b>RM'000</b>	<b>RM'000</b>	RM'000	RM'000
0%	<b>1,836,611</b>	-	1,900,515	-
10%	-	-	-	-
20%	<b>24,826</b>	<b>4,965</b>	20,124	4,025
50%	<b>60,487</b>	<b>30,244</b>	71,765	35,882
100%	<b>3,429,025</b>	<b>3,429,025</b>	3,620,676	3,620,676
	<b>5,350,949</b>	<b>3,464,234</b>	5,613,080	3,660,583

#### 40 Operations of Islamic Banking (continued)

##### (v) Commitments and Contingencies

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

The table below shows the contract or underlying principal amounts, credit equivalents amounts and risk weighted amounts of unmatured off-balance sheet transactions as at balance sheet date. The contract or underlying principal amounts indicate the volume of business outstanding and do not represent amount at risk.

	2007			2006		
	Principal amount RM'000	Credit equivalent amount * RM'000	Risk weighted amount RM'000	Principal amount RM'000	Credit equivalent amount * RM'000	Risk weighted amount RM'000
Transaction-related contingent items	7,700	3,850	3,850	-	-	-
Irrevocable commitments to extend credit:						
- Maturity not exceeding one year	17,975	-	-	18,291	-	-
- Maturity exceeding one year	15,356	7,678	7,678	173,210	86,605	86,605
Sell buy back agreement	286,870	286,870	286,870	120,025	120,025	120,025
	<b>327,901</b>	<b>298,398</b>	<b>298,398</b>	<b>311,526</b>	<b>206,630</b>	<b>206,630</b>

\* The credit equivalent amount is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

#### 40 Operations of Islamic Banking (continued)

##### (w) Profit Rate Risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows of the Islamic banking operations. The following table indicates the effective profit rates at the balance sheet date and the periods of repricing or maturity, whichever is earlier.

2007	Non-trading book						Trading book	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000			
<b>ASSETS</b>									
Cash and short term funds	1,138,941	-	-	-	-	105	-	<b>1,139,046</b>	3.53
Securities available-for-sale	5,007	9,999	282,316	524,605	-	-	-	<b>821,927</b>	3.90
Financing, advances and other loans									
- performing	778,556	609,647	50,897	1,244,980	272,002	-	-	<b>2,956,082</b>	7.50
- non-performing *	-	-	-	-	-	5,383	-	<b>5,383</b>	-
Others	-	-	-	-	-	100,173	-	<b>100,173</b>	-
<b>TOTAL ASSETS</b>	<b>1,922,504</b>	<b>619,646</b>	<b>333,213</b>	<b>1,769,585</b>	<b>272,002</b>	<b>105,661</b>	-	<b>5,022,611</b>	
<b>LIABILITIES AND ISLAMIC BANKING CAPITAL FUNDS</b>									
Deposits from customers	1,603,122	555,767	1,094,114	1,624	-	68,484	-	<b>3,323,111</b>	3.35
Deposits and placements of banks and other financial institutions	5,772	-	-	-	-	-	-	<b>5,772</b>	3.43
Others	921,026	-	-	-	-	151,558	-	<b>1,072,584</b>	3.53
<b>Total Liabilities</b>	<b>2,529,920</b>	<b>555,767</b>	<b>1,094,114</b>	<b>1,624</b>	-	<b>220,042</b>	-	<b>4,401,467</b>	
Islamic Banking Capital Funds	-	-	-	-	-	621,144	-	<b>621,144</b>	
<b>Total Liabilities and Islamic Banking Capital Funds</b>	<b>2,529,920</b>	<b>555,767</b>	<b>1,094,114</b>	<b>1,624</b>	-	<b>841,186</b>	-	<b>5,022,611</b>	
On-balance sheet profit sensitivity gap	(607,416)	63,879	(760,901)	1,767,961	272,002	(735,525)	-	-	
<b>Total profit sensitivity gap</b>	<b>(607,416)</b>	<b>63,879</b>	<b>(760,901)</b>	<b>1,767,961</b>	<b>272,002</b>	<b>(735,525)</b>	-	-	

\* This is arrived at after deducting the specific allowance from non-performing loans.

**40 Operations of Islamic Banking (continued)**

**(w) Profit Rate Risk (continued)**

2006	← Non-trading book →						Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000			
<b>ASSETS</b>									
Cash and short term funds	975,392	-	-	-	-	142	-	975,534	3.59
Deposits and placements with banks and other financial institutions	-	160,000	-	-	-	-	-	160,000	3.69
Securities available-for-sale	-	19,966	157,709	862,732	-	-	-	1,040,407	3.97
Financing, advances and other loans									
- performing	1,573,208	34,647	26,908	1,123,773	318,237	-	-	3,076,773	7.66
- non-performing *	-	-	-	-	-	3,480	-	3,480	-
Others	-	-	-	-	-	117,119	-	117,119	-
<b>TOTAL ASSETS</b>	<b>2,548,600</b>	<b>214,613</b>	<b>184,617</b>	<b>1,986,505</b>	<b>318,237</b>	<b>120,741</b>	<b>-</b>	<b>5,373,313</b>	
<b>LIABILITIES AND ISLAMIC BANKING CAPITAL FUNDS</b>									
Deposits from customers	2,261,332	805,645	617,213	2,643	-	60,949	-	3,747,782	3.20
Deposits and placements of banks and other financial institutions	93,830	-	-	-	-	-	-	93,830	3.21
Others	940,075	-	-	-	-	39,184	-	979,259	3.59
<b>Total Liabilities</b>	<b>3,295,237</b>	<b>805,645</b>	<b>617,213</b>	<b>2,643</b>	<b>-</b>	<b>100,133</b>	<b>-</b>	<b>4,820,871</b>	
Islamic Banking Capital Funds	-	-	-	-	-	552,442	-	552,442	
<b>Total Liabilities and Islamic Banking Capital Funds</b>	<b>3,295,237</b>	<b>805,645</b>	<b>617,213</b>	<b>2,643</b>	<b>-</b>	<b>652,575</b>	<b>-</b>	<b>5,373,313</b>	
<b>On-balance sheet profit sensitivity gap</b>	<b>(746,637)</b>	<b>(591,032)</b>	<b>(432,596)</b>	<b>1,983,862</b>	<b>318,237</b>	<b>(531,834)</b>	<b>-</b>	<b>-</b>	
<b>Total profit sensitivity gap</b>	<b>(746,637)</b>	<b>(591,032)</b>	<b>(432,596)</b>	<b>1,983,862</b>	<b>318,237</b>	<b>(531,834)</b>	<b>-</b>	<b>-</b>	

\* This is arrived at after deducting the specific allowance from non-performing loans.

#### **40 Operations of Islamic Banking (continued)**

##### **(x) Fair Values of Financial Assets and Liabilities**

The following table summarises the fair value of the financial assets and liabilities carried on the balance sheet as at 31 December.

	<b>2007</b>	<b>2007</b>	2006	2006
	<b>Carrying</b>	<b>Fair</b>	Carrying	Fair
	<b>amount</b>	<b>Value</b>	amount	Value
	<b>RM'000</b>	<b>RM'000</b>	RM'000	RM'000
<b>Financial Assets</b>				
Cash and short term funds	<b>1,139,046</b>	<b>1,139,046</b>	975,534	975,534
Deposits and placements with banks and other financial institutions	-	-	160,000	160,000
Securities available-for-sale	<b>821,927</b>	<b>821,927</b>	1,040,407	1,040,407
Financing, advances and other loans	<b>2,961,465</b>	<b>2,903,919</b>	3,080,253	3,021,062
<b>Financial Liabilities</b>				
Deposits from customers	<b>3,323,111</b>	<b>3,334,398</b>	3,747,782	3,748,519
Deposits and placements of banks and other financial institutions	<b>5,772</b>	<b>5,772</b>	93,830	93,830

The methods and assumptions used to estimate the fair values of the financial assets and financial liabilities of the operations of Islamic banking are as stated in Note 35.

#### **40 Operations of Islamic Banking (continued)**

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##### **(y) Shariah Committee**

In line with Bank Negara Malaysia's "Guidelines on the Governance of Shariah Committee for The Islamic Financial Institutions" known as BNM/GPS 1, the following Shariah scholars were appointed:

- 1) Dr. Mohamad Akram Laldin, Assistant Professor at International Islamic University of Malaysia. He is a graduate of University of Jordan, Shariah Department and a Ph.D holder in Islamic Law from the University of Edinburgh, Scotland.
- 2) Dr. Rusni Hassan, Assistant Professor of Law at International Islamic University of Malaysia. She holds a double degree, LLB and LLB (Shariah), Master as well as Ph.D in Law from the same university.
- 3) Khairul Anuar Ahmad, lecturer with Selangor Islamic College University. He holds a Bachelor and Master of Shariah from University of Malaya.

Monthly meetings are held to discuss Shariah issues complemented by ad-hoc meetings to resolve urgent Shariah matters. The Committee peruse all the documents from inception of a product, to documentation and marketing to ensure that the process flow complies with Shariah at all times. No major Shariah issues were raised and none remain unresolved.

A Shariah Co-ordinator was employed to support the Shariah function and the Committee. This role will include Shariah Audit, Shariah review of operations and other relevant Shariah work.