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

## FINANCIAL STATEMENTS – 31 DECEMBER 2014

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

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

Peter Wong Tung Shun
Non-Independent Non-Executive Director/Chairman

Mukhtar Malik Hussain
Non-Independent Executive Director/ Deputy Chairman and Chief Executive Officer

Ching Yew Chye @ Chng Yew Chye
Independent Non-Executive Director

Datuk Shireen Ann Zaharah Muhiudeen
Independent Non-Executive Director

Lee Choo Hock
Independent Non-Executive Director

Tan Kar Leng @ Chen Kar Leng *(Appointed on 2 April 2014)*
Independent Non-Executive Director

Tan Sri Dato' Tan Boon Seng @ Krishnan *(Appointed on 2 April 2014)*
Independent Non-Executive Director

Tan Sri Dato' Sulaiman bin Sujak *(retired on 15 April 2014)*
Independent Non-Executive Director

Dato' Henry Sackville Barlow *(retired on 15 April 2014)*
Independent Non-Executive Director

Datuk Ramli bin Ibrahim *(retired on 15 April 2014)*
Independent Non-Executive Director

Baldev Singh s/o Gurdial Singh @ Nikah Singh *(ceased on 9 November 2014)*
Non-Independent Executive Director/Chief Financial Officer

## PROFILE OF DIRECTORS

**Peter Wong Tung Shun**
Non-Independent Non-Executive Director /Chairman

Mr Wong was appointed Chairman and Non-Independent Non-Executive Director on 5 February 2010. He was educated at Indiana University in the United States and holds a Bachelor's degree in Computer Science, an MBA in Marketing and Finance and an MSc in Computer Science. His banking career began in 1980. He joined HSBC Group in 2005, and was Group General Manager and Executive Director, Hong Kong and Mainland China, before assuming the position of Chief Executive for Asia-Pacific in February 2010. He became Deputy Chairman of The Hongkong and Shanghai Banking Corporation in May 2013.

Mr Wong is currently the Deputy Chairman and Chief Executive of The Hongkong and Shanghai Banking Corporation Limited. He is also a Group Managing Director and a member of the Group Management Board of HSBC Holdings plc. In addition, he is the Chairman and Non-Executive Director of HSBC Bank (China) Company Limited and Non-Executive Director of Hang Seng Bank Limited. He is also a Non-Executive Director of Bank of Communications Co., Limited and an Independent Non-Executive Director of Cathay Pacific Airways Limited. He is also a member of the General Committee for the Hong Kong General Chamber of Commerce.

**Mukhtar Malik Hussain**
Non-Independent Executive Director/Deputy Chairman and Chief Executive Officer

Mr Mukhtar Hussain is the Deputy Chairman and Chief Executive Officer of HSBC Bank Malaysia Berhad. He was appointed to this role in December 2009. He was also elected as Group General Manager for the HSBC Group in May 2008. Mukhtar graduated from the University of Wales with a Bachelor of Science in Economics. He first joined the HSBC Group in 1982 as a Graduate Trainee in Midland Bank International. He was then appointed as Assistant Director in Samuel Montagu in 1991. After close to 11 years of working in the HSBC Group's London offices, Mr Hussain then held numerous posts in Dubai including Chief Executive Officer of HSBC Financial Services (Middle East) Limited from 1995 to 2003 and established the initiative to create the first foreign investment bank in Saudi Arabia for HSBC.

In 2003, Mukhtar assumed the position of Chief Executive Officer of Global Banking and Market and became the Co-Head of Global Banking in 2005. He headed back to London as the Global Head of Principal Investments from 2006 to 2008. He was the Deputy Chairman, HSBC Bank Middle East Limited, Global Chief Executive Officer of HSBC Amanah and Chief Executive Officer of Global Banking and Markets, Middle East and North Africa, a dual role with global responsibilities for Islamic Finance and HSBC's wholesale banking activities in the Middle East and North Africa before he came to Malaysia.

Mukhtar is also a a Non-Executive Director of HSBC Amanah Malaysia Berhad, member of the Nominating Committee of HSBC Bank Malaysia and member of the Executive Committee of HSBC Asia Pacific.

**Ching Yew Chye @ Chng Yew Chye**
Independent Non-Executive Director

Mr Ching was appointed on 22 October 2008. He is the Chairman of Risk Committee and a member of the Audit Committee, Nominating Committee and Connected Party Transactions Committee of the Bank. Mr Ching graduated from University of London in Computer Science and began his career with Robert Horne Group of Companies in Northampton, England in 1977 as an IT and Management Trainee. In 1982, he joined Accenture in London before returning to Accenture in Malaysia in 1983. He retired from Accenture as Senior Partner in 2007. During his tenure with Accenture, Mr Ching held various management roles including Managing Partner for the South Asia region (2002-2005) and was responsible for all aspects of Accenture's internal business operations, developing strategic capabilities and ensuring operational effectiveness and efficiency. From 1997 to 2002, he served on the Financial Services Global Management Committee and the Global Executive Council, which were responsible for directing the global strategy and business of financial services industry group. In 1997, he was also appointed Managing Partner for Financial Services Industry Group in Asia.

Mr Ching also sits on the board of Petronas Chemicals Group Berhad and Genting Plantations Berhad.

**PROFILE OF DIRECTORS (Cont'd)**

**Datuk Shireen Ann Zaharah Muhiudeen**
Independent Non-Executive Director

Datuk Shireen was appointed on 5 December 2013. She serves as a member of the Risk Committee of the Bank. She graduated from Loyola Marymount University with a Master of Business Administration. She is currently the Managing Director of Corston-Smith Asset Management Sdn Bhd and Corston-Smith Asset Management (Singapore) Pte Ltd respectively. Prior to Corston-Smith, Datuk Shireen was the CEO of AIG Investment Corporation (Malaysia), and has over 25 years' experience in managing funds. She was named one of the 25 most influential women in Asia Pacific for Asset Management by Asian Investor in June 2011. In March 2014, she was honoured by Forbes Asia as one of the 50 Asia's Power Businesswomen 2014.

In addition to her current role, Datuk Shireen also sits on the Board of Integrax Berhad as an Independent Director and Chairman of the Governance Committee as well as a member of the Tender Committee. She is also currently a member of the International Advisory Panel for Labuan International Business and Financial Centre.

**Mr Lee Choo Hock**
Independent Non-Executive Director

Mr Lee was appointed on 5 December 2013. He is the Chairman of Audit Committee and a member of the Nominating Committee and Connected Party Transactions Committee of the Bank. He is a member of the Institute of Chartered Accountants in England and Wales as well as the Malaysian Institute of Accountants. He began his career with Miller, Brener & Co., London, a professional accounting firm in 1975 and joined Maybank in 1982. Having worked with Maybank for 27 years, Mr Lee has built a successful career as a professional accountant. He served various management positions during his tenure with Malayan Banking Berhad until he retired in 2008 and last position was as the Executive Vice President, Head of Accounting Services and Treasury Back Office Operations. He has also served as a Director of a number of subsidiaries of Malayan Banking Berhad.

In addition to his current role, Mr Lee also sits on the Board of Kossan Rubber Industries Berhad.

**Tan Kar Leng @ Chen Kar Leng**
Independent Non-Executive Director

Ms Chen was appointed on 2 April 2014. She serves as a member of the Risk Committee and Nominating Committee of the Bank. As a graduate from the University of Singapore (now the National University), she was called to the Malaysian Bar in January 1968 and Brunei Bar in May 1996. She has been appointed a partner of Skrine, Kuala Lumpur since January 1974 and Head of its Corporate Division on 31 December 2009. After her retirement, she has been retained as a consultant of the firm.

In addition to her current role, Ms Chen also sits on the Board of Eastern & Oriental Berhad. She is also a member of the Advocates & Solicitors Disciplinary Board appointed by the Chief Justice of Malaya.

**Tan Sri Dato' Tan Boon Seng @ Krishnan**
Independent Non-Executive Director

Tan Sri Krishnan Tan was appointed on 2 April 2014. He is the Chairman of Nominating Committee and a member of the Audit Committee, Risk Committee and Connected Party Transactions Committee of the Bank.

He qualified as a Certified Public Accountant in 1978 after graduating with a Bachelor of Economics (Honours) degree from University of Malaya in 1975, and holds a Master's degree in Business Administration from Golden Gate University, San Francisco, USA.

Tan Sri Dato' Krishnan Tan is currently the Deputy Non-Executive Chairman of IJM Corporation Berhad and serves as a Director of IJM Plantations Berhad, IJM Land Berhad (Chairman), and Grupo Concesionario del Oeste S.A., Argentina. He joined IJM as a Financial Controller in 1983 and was appointed Group Managing Director in 1997 and served in this position until 2010. He held the position of Executive Deputy Chairman from 2011 to 2013.

In addition to his current role, Tan Sri Dato' Krishnan sits on the Board of Malaysian Airline System Berhad, Malaysia Property Incorporated and Malaysian Community & Education Foundation and a member of the Olympic Council Trust Management Committee.

## BOARD RESPONSIBILITY AND OVERSIGHT

### BOARD OF DIRECTORS

#### Composition of the Board

At the date of this report, the Board consists of seven (7) members; comprising one (1) non-independent executive Director, one (1) non-independent non-executive Director 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).

There is a clear separation between the roles of Chairman and Chief Executive Officer to ensure an appropriate balance of role, responsibility, authority and accountability. The Board of Directors is led by Mr Peter Wong Tung Shun as the Chairman, Non-Independent Non-Executive Director and the management of the Bank is led by Mr Mukhtar Malik Hussain, the Chief Executive Officer, Non-Independent Executive Director.

#### Roles and Responsibilities of the Board

The primary responsibility of the Board of Directors is to adopt an effective and high standard of corporate governance practices by the Bank which include reviewing and approving the Bank's strategies; the annual business plans and performance targets; the significant policies and procedures for monitoring and control of operations; appointments of key senior officers; acquisitions and disposals above pre-determined thresholds; and monitor the management's performance in implementing them.

The Board of Directors also carries out other various functions and responsibilities as laid down by the guidelines and directives issued by Bank Negara Malaysia from time to time.

#### Frequency and Conduct of Board Meetings

To discharge its duties effectively, the Board has met seven (7) times during the year.

The Board receives reports on the progress of the Bank's business operations and minutes of meetings of Board and Management 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, strategic decisions and corporate governance matters. The Board also receives 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 the Board meetings, to allow time for appropriate review and to enable full discussion at the Board 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.

The Revised BNM/GP1 requires the individual Directors to have a minimum attendance of at least 75% of all meetings. All the Directors of the Bank have complied with this requirement.

## BOARD OF DIRECTORS (Cont'd)

### Frequency and Conduct of Board Meetings (Cont'd)

The attendance of Directors at the Board meetings held in the financial year ended 31 December 2014 was as follows:

| Name of members | Designation | Attendance / No. of meetings |
|---|---|---|
| Peter Wong Tung Shun | Chairman<br>Non-Independent Non-Executive Director | 6/7 |
| Mukhtar Malik Hussain | Deputy Chairman and Chief Executive Officer<br>Non-Independent Executive Director | 6/7 |
| Ching Yew Chye @ Chng Yew Chye | Independent Non-Executive Director | 7/7 |
| Datuk Shireen Ann Zaharah Muhiudeen | Independent Non-Executive Director | 6/7 |
| Lee Choo Hock | Independent Non-Executive Director | 7/7 |
| Tan Kar Leng @ Chen Kar Leng<br>*(appointed on 2 April 2014)* | Independent Non-Executive Director | 5/5 |
| Tan Sri Dato' Tan Boon Seng @ Krishnan<br>*(appointed on 2 April 2014)* | Independent Non-Executive Director | 5/5 |
| Tan Sri Dato' Sulaiman bin Sujak<br>*(retired on 15 April 2014)* | Independent Non-Executive Director | 2/2 |
| Dato' Henry Sackville Barlow<br>*(retired on 15 April 2014)* | Independent Non-Executive Director | 2/2 |
| Datuk Ramli bin Ibrahim<br>*(retired on 15 April 2014)* | Independent Non-Executive Director | 1/2 |
| Baldev Singh s/o Gurdial Singh @ Nikah Singh<br>*(ceased on 9 November 2014)* | Chief Financial Officer<br>Non-Independent Executive Director | 6/6 |

## BOARD COMMITTEES

The Board of Directors has established Board Committees to assist them in the overall management and the running of the Bank's business operations. The appointments of the members to these committees were approved by the Board of Directors upon recommendation by the Nominating Committee. The functions and the terms of reference of each committee, as well as authority delegated by the Board of Directors to these committees, have been clearly defined by the Board of Directors.

The Board Committees in the Bank are as follows:

- Audit Committee
- Risk Committee
- Nominating Committee
- Connected Party Transactions Committee
- Executive Committee

Pursuant to the Revised BNM/GP1, the Risk Committee and Nominating Committee were established in 2006 in addition to the existing Audit Committee which was established since 1994. The Revised BNM/GP1 also requires the Board to establish a Remuneration Committee but the Bank has obtained an exemption from Bank Negara Malaysia on 28 April 2006 from this requirement.

The Connected Party Transactions Committee was established in 2008 pursuant to the requirements under the Bank Negara Malaysia Guidelines on Credit Transactions and Exposures with Connected Parties.

In addition to the above Board Committees, the Bank has established various sub-committees to assist the Executive Committee in performing their roles and responsibilities and to assist the Chief Executive Officer in the day to day running of the Bank.

## AUDIT COMMITTEE

### Composition

The present members of the Audit Committee comprise:

- Lee Choo Hock (Chairman) *(Appointed as Chairman on 7 April 2014)*
- Tan Sri Dato' Tan Boon Seng @ Krishnan *(Appointed on 7 April 2014)*
- Ching Yew Chye @ Chng Yew Chye *(Appointed on 7 April 2014)*

### Frequency of the Meetings

A total of four (4) Audit Committee meetings were held during the financial year. The attendance of members at the Audit Committee meetings held in the financial year 2014 was as follows:

| Name of members | Designation | Attendance / No. of meetings |
|---|---|---|
| Lee Choo Hock<br>*(appointed as Chairman on 7 April 2014)* | Audit Committee Chairman | 4/4 |
| Tan Sri Dato' Tan Boon Seng @ Krishnan<br>*(appointed on 7 April 2014)* | Audit Committee Member | 3/3 |
| Ching Yew Chye @ Chng Yew Chye<br>*(appointed on 7 April 2014)* | Audit Committee Member | 3/3 |
| Datuk Ramli bin Ibrahim<br>*(ceased as Chairman on 7 April 2014)* | Audit Committee Chairman | 1/1 |
| Tan Sri Dato' Sulaiman bin Sujak<br>*(ceased on 7 April 2014)* | Audit Committee Member | 1/1 |
| Dato' Henry Sackville Barlow<br>*(ceased on 7 April 2014)* | Audit Committee Member | 1/1 |

### Terms of Reference

The revised Terms of Reference as set out below were tabled at the Audit Committee and Board of Directors meetings held on 30 October 2014 and 31 October 2014.

<u>Membership</u>

1. The Committee shall comprise not less than three (3) members. All members shall be independent non-executive directors.

2. The Chairman of the Committee shall be appointed by the Board Members of the Committee and the Chairman shall be appointed subject to endorsement by Group Audit Committee.

3. The Board may from time to time appoint to the Committee additional members 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 the Bank.

4. The Chairman of the Committee shall be an independent director.

5. 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.

**BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)**

**AUDIT COMMITTEE (Cont'd)**

**Terms of Reference (Cont'd)**

Meetings and Quorum

6. 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.

7. The quorum for meetings shall be two (2) non-executive directors.

8. 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

9. The Committee shall be accountable to the Board and shall have non-executive responsibility for oversight of and advice to the Board on matters relating to financial reporting.

Responsibilities of the Committee

10. Without limiting the generality of the Committee's objective, the Committee shall have the following non-executive responsibilities, powers, authorities and discretions :

10.1 To monitor the integrity of the financial statements of the Bank, and any formal announcements relating to the Bank's financial performance or supplementary regulatory information, reviewing significant financial reporting judgements contained in them. In reviewing the Bank's financial statements before submission to the Board, the Committee shall focus particularly on:

- 10.1.1 any changes in accounting policies and practices;
- 10.1.2 major judgemental areas;
- 10.1.3 significant adjustments resulting from audit;
- 10.1.4 the going concern assumptions and any qualifications;
- 10.1.5 compliance with accounting standards;
- 10.1.6 compliance with legal requirements in relation to financial reporting;
- 10.1.7 regulatory guidance on disclosure of areas of special interest;
- 10.1.8 comment letters from appropriate regulatory authorities; and
- 10.1.9 matters drawn to the attention of the Committee by the Bank's external auditor.
- 10.1.10 In regard to the above:
  - 10.1.10.1 members of the Committee shall liaise with the Board, members of senior management, the external auditor and Head of Internal Audit;
  - 10.1.10.2 the Committee shall consider any significant or unusual items that are, or may need to be, highlighted in the annual report and accounts and shall give due consideration to any matters raised by the Chief Financial Officer, Chief Risk Officer, Head of Internal Audit, Head of Regulatory Compliance or external auditor; and
  - 10.1.10.3 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.

10.2 To review the Bank's financial and accounting policies and practices.

10.3 To review and discuss with management the effectiveness of the Bank's internal control systems relating to financial reporting and, where appropriate, to endorse the content of the statement relating to internal controls over financial reporting in the annual report for submission to the Board.

**BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)**

**AUDIT COMMITTEE (Cont'd)**

**Terms of Reference (Cont'd)**

Responsibilities of the Committee (Cont'd)

10.4 To monitor and review the effectiveness of the internal audit function, consider the major findings of internal investigations and management's response, and ensure that the internal audit function is adequately resourced, has appropriate standing within the Bank and is free from constraint by management or other restrictions. Where applicable, the Committee shall recommend to the Board the appointment and removal of the Head of Internal Audit.

10.5 To satisfy itself that there is appropriate co-ordination between the internal and external auditors.

10.6 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 shall be directly responsible for the approval of the remuneration and terms of engagement of the external auditor.

10.7 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.

10.8 To implement the HSBC 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; and 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 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.

10.9 To review the external auditor's annual report on the progress of the audit, its management letter, any material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control and, in each case, responses from management. Any material issues arising which relate to the management of risk or internal controls (other than internal financial controls) shall be referred to the Risk Committee as appropriate.

10.10 To require a timely response to be provided to the financial reporting and related control issues raised in the external auditor's management letter.

10.11 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 judgmental areas (including all critical accounting policies and practices used by the Bank 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 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).

**AUDIT COMMITTEE (Cont'd)**

**Terms of Reference (Cont'd)**

Responsibilities of the Committee (Cont'd)

10.12 To review and discuss the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget and succession planning for key roles throughout the function.

10.13 To consider any findings of major investigations of internal control over financial reporting matters as delegated by the Board or on the Committee's initiative and assess management's response.

10.14 To receive an annual report, and other reports from time to time as may be required by applicable laws and regulations, from the Chief Executive Officer and Chief 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 Bank'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 Bank's internal controls over financial reporting.

10.15 To provide to the Board such assurances as it may reasonably require regarding compliance by the Bank, its subsidiaries (if any) and those of its associates for which it provides management services with all supervisory and other regulations to which they are subject.

10.16 To provide to the Board such additional assurance as it may reasonably require regarding the reliability of financial information submitted to it.

10.17 To receive from the Regulatory 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 HSBC Group Audit Committee or HSBC Group Risk Committee may approve) for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

10.18 To report any significant actual, suspected or alleged fraud (involving misconduct or unethical behaviour related to financial reporting) or misrepresentation of assets, which has not been included in a report submitted by management to the Committee, to the non-executive committee responsible for oversight of risk established by that subsidiary's Regional Holding Company within the Group.

10.19 To agree with the Bank's policy for the employment of former employees of the external auditor, within the terms of the HSBC Group's policy.

10.20 The Committee shall meet alnone 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.

10.21 Where applicable to review the composition, powers, duties and responsibilities of subsidiaries' non-executive audit committee. The HSBC Group Audit Committee will review the core terms of reference for adoption by such committee and approve material deviations from such core terms.

10.22 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 to time entrust to it.

10.23 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 Bank on behalf of the Committee.

**BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)**

**AUDIT COMMITTEE (Cont'd)**

**Terms of Reference (Cont'd)**

Responsibilities of the Committee (Cont'd)

10.24 The Committee shall review annually the Committee's terms of reference and its own effectiveness and recommend to the Board any necessary changes.

10.25 To report to the Board on the matters set out in these terms of reference.

10.26 To provide half-yearly certificates to the HSBC Group Audit Committee, or to any audit committee of an imrmediate holding company in the form required by the Group Audit Committee. Such certificates are to include a statement that the members of the Committee are independent.

10.27 To review any related party transactions that may arise within the Bank and the HSBC Group.

10.28 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.

11. The Committee may consider any matter relating to, and may request any information as it considers appropriate, from Risk Committee or any other committee which has responsibility for the oversight of risk within the Bank.

    Where there is a perceived overlap of responsibilities between this Committee and the Risk Committee, the respective Committee Chairmen shall have the discretion to agree the most appropriate Committee to fulfill any obligation. An obligation under the terms of reference of this Committee or the Risk Committee will be deemed by the Board to have been fulfilled providing it is dealt with by either the Committee.

12. 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 HSBC Group Audit Committee and/or HSBC Group Risk Committee as appropriate; or to any audit and/or risk committee of an intermediate holding company as appropriate.

Written or Circulating Resolution

13. 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.

## RISK COMMITTEE

### Composition

The present members of the Risk Committee comprise:

- Ching Yew Chye @ Chng Yew Chye (Chairman)*(Appointed as Chairman on 7 April 2014)*
- Tan Sri Dato' Tan Boon Seng @ Krishnan *(Appointed on 7 April 2014)*
- Tan Kar Leng @ Chen Kar Leng *(Appointed on 7 April 2014)*
- Datuk Shireen Ann Zaharah Muhiudeen

### Frequency of the Meetings

A total of five (5) Risk Committee meetings were held during the financial year 2014. The attendance of members at the Risk Committee meetings held in the financial year 2014 was as follows:

| Name of members | Designation | Attendance / No. of meetings |
|---|---|---|
| Ching Yew Chye @ Chng Yew Chye *(appointed on 7 April 2014)* | Risk Committee Chairman | 5/5 |
| Tan Sri Dato' Tan Boon Seng @ Krishnan *(appointed on 7 April 2014)* | Risk Committee Member | 4/4 |
| Tan Kar Leng @ Chen Kar Leng *(appointed on 7 April 2014)* | Risk Committee Member | 4/4 |
| Datuk Shireen Ann Zaharah Muhiudeen | Risk Committee Member | 2/5 |
| Dato' Henry Sackville Barlow *(ceased on 7 April 2014)* | Risk Committee Chairman | 1/1 |
| Tan Sri Dato' Sulaiman bin Sujak *(ceased on 7 April 2014)* | Risk Committee Member | 1/1 |
| Datuk Ramli bin Ibrahim *(ceased as Chairman on 7 April 2014)* | Risk Committee Member | 1/1 |

### Terms of Reference

The revised Terms of Reference as set out below were tabled at the Risk Committee and Board of Directors meetings held on 30 October 2014 and 31 October 2014. The Board had on 31 October 2014 agreed with the proposal to rename the 'Board Risk Management Committee' as 'Board Risk Committee' and the existing 'Executive Risk Committee' as 'Risk Management Committee' to be in line with HSBC Group practice.

<u>Membership</u>

1. The Committee shall comprise not less than three (3) members. All members shall be independent non-executive directors.

2. The Chairman of the Committee shall be appointed by the Board. Members of the Committee and the Chairman shall be subject to endorsement by Group Risk Committee.

3. The Chairman of the Committee shall be an independent non-executive director. The Board may from time to time appoint to the Committee additional members 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 the Bank.

4. 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.

**BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)**

**RISK COMMITTEE (Cont'd)**

**Terms of Reference (Cont'd)**

Meetings and Quorum

5. 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.

6. The quorum for meetings shall be two (2) non-executive directors.

7. 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

8. The Committee shall be accountable to the Board and shall have non-executive responsibility for oversight of and advice to the Board on matters relating to high level risk related matters and risk governance.

Responsibilities of the Committee

9. Without limiting the generality of the Committee's objective, the Committee shall have the following non-executive responsibilities, powers, authorities and discretion :

9.1 To oversee and advise the Board on all high-level risk related matters.

9.1.1 In providing such oversight and preparing advice to the Board, the Committee shall oversee (i) current and forward-looking risk exposures; (ii) the Bank's risk appetite and future risk strategy, including capital and liquidity management strategy; and (iii) management of risk within the Bank.

9.2 To advise the Board on risk appetite and tolerance in determining strategy.

9.2.1 In preparing advice to the Board on risk appetite and tolerance the Committee shall (i) satisfy itself that risk appetite conforms to the Bank's strategy; (ii) seek such assurance as it may deem appropriate and take into account the current and prospective macroeconomic and financial environment, drawing on financial stability assessments published by authoritative sources that may be relevant; (iii) review and approve the methodology used in establishing the Bank's risk appetite including risk asset ratios, limits on exposures and concentrations, leverage ratios, economic capital ratios and stress and scenario testing; and (iv) review the results of appropriate stress and scenario testing.

9.3 To advise the Board on alignment of remuneration with risk appetite.

9.4 To consider and advise the Board on the risks associated with proposed strategic acquisitions or disposals as requested from time to time by any Director in consultation with the Chairman of the Committee. In preparing such advice the Committee shall satisfy itself that a due diligence appraisal of the proposition is undertaken, focusing in particular on risk aspects and implications for the risk appetite and tolerance of the HSBC Group, drawing on independent external advice where appropriate and available, before the Board takes a decision whether to proceed.

9.5 To require regular risk management reports from management which:

9.5.1 enable the Committee to assess the risks involved in the Bank's business and how they are controlled and monitored by management; and

9.5.2 give clear, explicit and dedicated focus to current and forward-looking aspects of risk exposure which may require a complex assessment of the Bank's vulnerability to hitherto unknown or unidentified risks.

**BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)**

**RISK COMMITTEE (Cont'd)**

**Terms of Reference (Cont'd)**

Responsibilities of the Committee (Cont'd)

9.6 To review the effectiveness of the Bank's risk management framework and internal control systems (other than internal financial control systems).

In undertaking this responsibility the Committee shall:

- 9.6.1 satisfy itself that there are adequate procedures for monitoring in a sufficiently timely and accurate manner, large exposures or risk types whose relevance may become of critical importance;
- 9.6.2 satisfy itself that there are adequate procedures in place for requiring compliance with HSBC Group policies;
- 9.6.3 consider any material findings from regulatory reviews and interactions with regulators in relation to risk governance or risk assessment or management process;
- 9.6.4 discuss the internal control systems with management and satisfy itself that management has discharged its duty to have an effective internal control system. The HSBC Bank Malaysia Berhad's Audit Committee shall have primary responsibility in this regard in relation to internal financial controls;
- 9.6.5 satisfy itself that the risk management function is adequately resourced (including taking into account qualifications and experience of staff and training programmes and budget), has appropriate standing within Bank and is free from constraint by management or other restrictions; and
- 9.6.6 seek assurance from internal audit that internal control processes for risk management are adequate for the strategy determined by the Board.

9.7 Where applicable, the Committee shall approve the appointment and removal of the Chief Risk Officer. The Committee shall seek such assurance as it may deem appropriate that the Chief Risk Officer:

- 9.7.1 participates in the risk management and oversight process at the highest level on an enterprise-wide basis;
- 9.7.2 has satisfied himself or herself that risk originators in the business units are aware of and aligned with the Bank's risk appetite;
- 9.7.3 has a status of total independence from individual business units;
- 9.7.4 reports to the Committee alongside an internal functional reporting line to the Asia Pacific Chief Risk Officer;
- 9.7.5 cannot be removed from office without the prior agreement of the Board; and
- 9.7.6 has direct access to the chairman of the Committee in the event of need.

9.8 To seek to embed and maintain throughout the Bank a supportive culture in relation to the management of risk and maintenance of internal controls alongside prescribed rules and procedures.

9.9 To review any issue which arises from any report from internal audit, the external auditor's annual report on the progress of the external audit, the management letter from the external auditor, any queries raised by the external auditor to management or, in each case, responses from management, which relates to the management of risk or internal control and has been referred to the Committee by the Audit Committee or as this Committee shall consider appropriate.

9.10 To require a timely response to be provided by management on material issues relating to the management of risk or internal control (other than internal financial control) raised in the external auditor's management letter which are considered by the Committee.

9.11 To review and endorse the content of the statements made in relation to internal controls (other than internal financial controls) in the annual report and accounts for submission to the Board.

**BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)**

**RISK COMMITTEE (Cont'd)**

**Terms of Reference (Cont'd)**

Responsibilities of the Committee (Cont'd)

9.12 Where applicable, to (i) review at least annually the terms of reference for the executive risk management meetings; and (ii) to review the minutes of such meetings and such further information as the executive risk management meeting may request from time to time.

9.13 To provide to the Board such additional assurance as it may reasonable require regarding the reliability of risk information submitted to it.

9.14 The Committee shall meet alone with the Head of Internal Audit at least once each year to ensure that there are no unresolved issues or concerns.

9.15 Where applicable, to review the composition, powers, duties and responsibilities of subsidiaries' risk management committees. The HSBC Group Risk Committee will review the core terms of reference for adoption by such committees and approve material deviations from such core terms.

9.16 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 to time entrust to it.

9.17 The Committee may appoint, employ or retain such professional advisors as the Committee may consider appropriate. In particular, the Committee shall consider whether external advice on risk matters should be taken to challenge analysis undertaken and assessments made by the Committee and the risk management function, for example an external advisor might be asked for input on the stress and scenario testing of a business strategy. 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 Bank on behalf of the Committee.

9.18 The Committee shall review annually the Committee's terms of reference and its own effectiveness and recommend to the Board, any necessary changes.

9.19 To report to the Board on the matters set out in these terms of reference.

10. The Committee may consider any matter relating to, and may request any information as it considers appropriate, from any audit committee, risk committee or other committee which has responsibility for the oversight of risk within the Bank.

    Where there is a perceived overlap of responsibilities between the Bank's Audit Committee and Risk Committee, the respective Committee Chairmen shall have the discretion to agree the most appropriate Committee to fulfill any obligation. An obligation under the terms of reference of the Bank's Audit Committee or the Risk Committee will be deemed by the Board to have been fulfilled providing it is dealt with by either of the Committees.

11. 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 HSBC Group Audit Committee and/or HSBC Group Risk Committee as appropriate; or to any audit and/or risk committee of an intermediate holding company as appropriate.

Written or Circulating Resolution

12. 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.

## NOMINATING COMMITTEE

### Composition

The present members of the Nominating Committee comprise:

- Tan Sri Dato' Tan Boon Seng @ Krishnan (Chairman) *(Appointed as Chairman on 7 April 2014)*
- Mukhtar Malik Hussain
- Ching Yew Chye @ Chng Yew Chye
- Lee Choo Hock *(Appointed on 7 April 2014)*
- Tan Kar Leng @ Chen Kar Leng *(Appointed on 7 April 2014)*

### Frequency of the Meetings

A total of six (6) meetings were held during the financial year 2014. The attendance of members at the Nominating Committee meetings held in the financial year 2014 was as follows:

| Name of members | Designation | Attendance / No. of meetings |
|---|---|---|
| Tan Sri Dato' Tan Boon Seng @ Krishnan *(appointed as Chairman on 7 April 2014)* | Nominating Committee Chairman | 5/5 |
| Mukhtar Malik Hussain | Nominating Committee Member | 6/6 |
| Ching Yew Chye @ Chng Yew Chye *(appointed on 7 April 2014)* | Nominating Committee Member | 5/6 |
| Lee Choo Hock *(appointed on 7 April 2014)* | Nominating Committee Member | 5/5 |
| Tan Kar Leng @ Chen Kar Leng *(appointed on 7 April 2014* | Nominating Committee Member | 5/5 |
| Tan Sri Dato' Sulaiman bin Sujak *(ceased on 7 April 2014)* | Nominating Committee Chairman | 1/1 |
| Datuk Ramli bin Ibrahim *(ceased as Chairman on 7 April 2014)* | Nominating Committee Member | 1/1 |
| Dato' Henry Sackville Barlow *(ceased on 7 April 2014)* | Nominating Committee Member | 1/1 |

### Terms of Reference

The revised Terms of Reference as set out below were tabled at the Nominating Committee. The attendance of members at the Nominating Committee meetings held in the financial year 2014 was as follows:

Membership

1. The Committee shall consist of a minimum of five (5) members, of which at least four (4) must be non-executive directors. The fifth person shall be an executive, who shall be the Chief Executive Officer ("CEO") of the Bank.

2. The Chairman of the Committee shall be an independent non-executive director 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/her.

3. 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 appropriate to assist the Committee in the attainment of its objective.

**NOMINATING COMMITTEE (Cont'd)**

**Terms of Reference (Cont'd)**

Meetings and Quorum

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

5. The quorum for meetings shall be three (3) directors, one (1) of which must be an executive director.

6. 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, who shall be an independent non-executive director.

Objective

7. The Committee shall be responsible for ensuring that there are formal and transparent procedures for appointment and/or reappointment of Directors, CEO, Company Secretary and key Senior Management. In addition, the Committee shall be responsible for the assessment of the effectiveness of individual directors, board as a whole, Company Secretary and the performance of CEO and the key Senior Management of the Bank.

Responsibilities of the Committee

8. Without limiting the generality of the Committee's objective, the Committee shall have the following responsibilities:

8.1 To establish the minimum requirements for the Board which requires mixed skills, experience, qualification and other core competencies required of a Director. The Committee is also responsible for establishing minimum requirements for the CEO. The requirements and criteria should be approved by the full Board;

8.2 To assess and recommend the nominees for Directorship, Board Committees, as well as nominees for the CEO before an application is submitted to Bank Negara Malaysia for approval;

8.3 Before recommending, a nominee for Directorship, the Committee shall evaluate the balance of skills, knowledge and experience on the Board, and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates the Committee shall:

8.3.1 use such method or methods to facilitate the search as it may deem appropriate;
8.3.2 consider candidates from a wide range of backgrounds;
8.3.3 consider candidates on merit and against objective criteria, taking care that appointees have enough time available to devote to the position; and
8.3.4 have due regard for the benefits of diversity on the board, including gender;

8.4 To oversee the overall composition of the Board, in terms of appropriate size and skills, and the balance between executive Directors, Non-Executive Directors and Independent Directors through annual review. This includes giving full consideration to succession planning for Directors in the course of its work, taking into account the challenges and opportunities facing the Bank and what skills and expertise are therefore needed on the Board in the future;

8.5 To review annually the time required from non-executive Directors. Performance evaluation should be used to assess whether he/she are spending enough time to fulfil their duties;

**NOMINATING COMMITTEE (Cont'd)**

**Terms of Reference (Cont'd)**

Responsibilities of the Committee (Cont'd)

8.6 To ensure that on appointment to the Board, the Non-Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board meetings;

8.7 To recommend to the Board the re-election by shareholders of Directors retiring by rotation and the renewal of the terms of office of Directors;

8.8 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 committee, the performance of the CEO, Company Secretary and key Senior Management of the Bank. Annual assessment should be conducted based on objective performance criteria and such performance criteria should be approved by the full Board;

8.9 To oversee the appointment, management succession planning and performance evaluation of key Senior Management. The Committee shall keep under review the leadership needs of the Bank, both executive and non-executive, with a view to ensuring the continued ability of HSBC to compete effectively in the marketplace;

8.10 To review the list of key Senior Management and be satisfied that the list is comprehensive and has taken into account all key positions within the Bank;

8.11 In respect of expatriates employed in Senior Management, the Committee shall ensure there is a process in place to facilitate the effective transfer of knowledge and expertise from expatriates employed in Senior Management and specialist positions to the staff of the institution as well as the industry and periodic assessments are deliberated on the performance and contribution of the expatriates to the overall development of the Bank;

8.12 To be responsible for conducting assessments of the fitness and propriety of Directors and CEO. For other key Senior Management, this function may be performed by the CEO or a designated committee under the delegated authority of the Board and the Committee;

8.13 To recommend to the Board the removal of any director, CEO or key Senior Management if he/she is ineffective, errant and negligent in discharging his/her responsibilities;

8.14 To assess on an annual basis, to ensure that the Directors and key Senior Management Officers are not disqualified under section 59 of the Financial Services Act 2013 and the Company Secretary is not disqualified under Section 139C of the Companies Act 1965;

8.15 To ensure that all Directors receive an appropriate continuous training program in order to keep abreast with the latest developments in the industry;

9. 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:

9.1 Discuss, evaluate and provide input on strategies and policies to suit the local environment; and

**BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)**

**NOMINATING COMMITTEE (Cont'd)**

**Terms of Reference (Cont'd)**

Responsibilities of the Committee (Cont'd)

9.2 Deliberate and make the necessary recommendations on such strategies and policies to assist the Board when approving major issues and strategies.

10. 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 adoption.

11. The Committee will not be delegated with decision making powers but shall report its recommendation to the Board for decision.

12. The Committee may appoint, employ or retain such professional advisers 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 HSBC on behalf of the Committee.

Written or Circulating Resolution

13. 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. Any such resolution may consist of several documents in the like form each signed by one or more members of the Committee.

Amendment

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

## CONNECTED PARTY TRANSACTIONS COMMITTEE

### Composition

The Committee shall consist of the following five (5) members:-

- Mr. Ching Yew Chye (Non-Executive Director)
- Mr. Lee Choo Hock (Non-Executive Director)
- Tan Sri Dato' Tan Boon Seng @ Krishnan (Non-Executive Director)
- Ramnath Krishnan, Chief Risk Officer ('CRO')
- Alvin Choo, Head of Wholesale Credit and Market Risk ('Head of WCR')

### Terms of Reference

The revised Terms of reference were approved via Directors' Circular Resolution on 6 January 2015.

Quorum

A minimum of three (3) members' authorisation shall constitute a quorum. The 3 members shall comprise of two non-executive directors and either the CRO or Head of WCR.

Meetings and Chairman

The meetings of the Committee may be arranged in any form other than physical meetings, via teleconferencing, video-conferencing or emails.

The Chairman of the meeting shall be elected by the members who have formed the quorum.

Written or Circulating Resolution

Any resolution in writing, signed or assented to by a minimum of three (3) members of the Committee comprising of two non-executive directors and either the CRO or the Head of WCR 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.

Powers Delegated by the Board

The Committee is delegated with the authority of the Board to approve transactions with a connected party of HSBC Bank Malaysia Berhad (HBMY) as follows:

a) For any financing transactions to Connected Parties (CP) of up to RM100 million (increased from RM50 million), inclusive of existing financing facilities, shall be approved by the Connected Party Transactions Committee (CPTC) and subsequently to be presented to the Board on quarterly basis for notation. However, if the members of the CPTC are of the view that the transaction is of a material nature, the CPTC shall then recommend the transaction to the Board for approval, notwithstanding that the amount is below the RM100 million threshold; or

b) Transactional limit of RM16 million (c.USD5 million) for the approval of intra-group limits (for guarantee limits) and subsequently to be presented quarterly to the Board for notation. These are the most frequently requested limits for the purpose of issuance of guarantee against counter-guarantee from other HSBC offices. For clarity, the CPTC can approve transactions of up to RM16 million (c.USD5 million) notwithstanding that the cumulative exposures are above RM100 million; or

c) Revision on the tenor of the transaction up to 1 year with no change in exposure; or

## CONNECTED PARTY TRANSACTIONS COMMITTEE (CONT'D)

### Terms of Reference (Cont'd)

Powers Delegated by the Board (Cont'd)

d) Where there are no change in exposures, transactions of up to RM100 million where the limits are reallocated from (i) a funded facility (including guarantee) ("Category A") to another Category A facility or (ii) Category A facility to a non-funded facility (excluding guarantee) ("Category B"); or

e) Transactions which are fully secured by cash or bank deposits.

The above authority limits may be reviewed or changed from time to time by the Board.

The exercise of the above authority by the Committee shall be subject to HBMY's normal credit evaluation process as well as the existing credit policies and lending guidelines, which include the following:

- HBMY Guidelines on Credit Transactions and Exposures with Connected Parties
- Business Instruction Manual – Volume 3 Credit
- Country Risk Plan
- Large Credit Exposure Policy
- Bank Negara Malaysia Guidelines on Single Counterparty Exposure Limit
- Bank Negara Guidelines on Credit Transactions and Exposure with Connected Parties
- Companies Act 1965
- Hong Kong Banking Ordinance
- Applicable laws and regulations

## MANAGEMENT REPORTS

The 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 Group and the Bank, key reports submitted to the Board during the year include:

- Minutes of the Board Committees
- Business Progress Report
- Financial Performance Report
- Annual Operating Plan
- Market Risk Limits
- Risk Appetite Statement
- Internal Capital Adequacy Assessment Process
- Advanced Internal Ratings –Based Approach ("IRBA") Implementation Plan
- Risk Management Reports
- Operational Risk Report
- Credit Advances Reports
- Scenario Stress Testing and Reverse Stress Testing Results
- Credit Transactions and Exposures to Connected Parties
- Anti-Money Laundering and Counter Terrorist Financing Reports
- Capital Exercise
- Capital Contingency Plan
- Medium Term Outlook
- People's Strategy Update

## INTERNAL AUDIT AND INTERNAL CONTROL ACTIVITIES

It is the responsibility of management at all levels to ensure that effective internal controls are in place for all the operations for which they are responsible. Controls within the internal control environment are provided by the implementation of established control frameworks and documented procedures / processes with first line oversight /monitoring effected through managerial /executive supervision and through the Business Risk Control Management teams. Internal Audit provides independent assurance on the effectiveness of the designs of the control frameworks / procedures / processes and on the effectiveness of their implementation.

Systems, processes and procedures are in place to identify, assess, monitor, control and report on all major risks including credit, volatility in the market prices of financial papers, liquidity, operational errors, breaches of law or regulations, unauthorized activities or frauds. These risks are reported to and monitored by the Operational Risk and Internal Control Committee, the Risk Committee, the Asset and Liability Management Committee (ALCO), the Executive Committee (EXCO), the Audit Committee, the Risk Management Committee and the Board of Directors.

Responsibilities for financial performance against plans and for capital expenditure, credit exposures and market risk exposures are delegated within limits to line management. Global functions in the HSBC Group Head Office are responsible for setting policies, procedures and standards in the areas of finance; legal, financial crime compliance and regulatory compliance; internal audit; human resources; credit; market risk; operational risk; IT systems and operations; property management; and for selected global product lines. The Bank operates within these policies, procedures and standards set by the HSBC Group Head Office Global functions.

HSBC Bank Malaysia Berhad's internal audit function assesses and monitors compliance with policies and standards and the operational effectiveness of internal control structures / frameworks across the Bank and its subsidiaries ("the Group") in conjunction with other HSBC Global Internal Audit units. The work of the audit function is focused on areas of greatest risk to the Group on a risk based approach. The Head of Internal Audit reports functionally to the Audit Committee and to the Head of Global Internal Audit, Asia Pacific and administratively to the Chief Executive Officer.

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 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 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 as directed action to be taken by the Group's management team to rectify any deficiencies identified by Internal Audit and to improve the system of internal controls based on the internal auditors' recommendations for improvements.

## RATING BY EXTERNAL RATING AGENCIES

Details of the Bank's ratings are as follows:

| Rating Agency | Date | Rating Classification | Ratings Received |
|---|---|---|---|
| RAM Ratings Services Berhad | June 2014 | - Long term | AAA |
| | | - Short term | P1 |
| | | - Subordinated liabilities | AA1 |
| | | - Outlook | Stable |
| Moody's Investors Service | November 2014 | - Financial strength rating | C- |
| | | - Foreign currency long term deposits | A3 |
| | | - Local currency long term deposits | A1 |
| | | - Foreign currency short term debt | P-2 |
| | | - Local currency short term debt | P-1 |
| | | - Outlook | Stable |

Details of the ratings of the Bank's wholly owned subsidiary, HSBC Amanah Malaysia Berhad are as follows:

| Rating Agency | Date | Rating Classification | Ratings Received |
|---|---|---|---|
| RAM Ratings Services Berhad | June 2014 | - Long term | AAA |
| | | - Short term | P1 |
| | | - Outlook | Stable |
| | | - Multi-currency Sukuk Programme | AAA |

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

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

The directors hereby submit their report and the audited financial statements of HSBC Bank Malaysia Berhad ("the Bank") and its subsidiaries ("the Group") for the year ended 31 December 2014.

### Principal Activities

The principal activities of the Group are banking and related financial services, which also include Islamic banking operations. Details of the subsidiary companies are as disclosed in Note 14 of the financial statements.

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

### Results

| | Group | Bank |
|---|---|---|
| | RM'000 | RM'000 |
| **Profit for the year attributable to the owner of the Bank** | | |
| Profit before income tax expense | **1,486,714** | **1,304,836** |
| Income tax expense | **(380,790)** | **(340,745)** |
| Profit after income tax expense | **1,105,924** | **964,091** |

### Dividends

Since the end of the previous financial year, the Bank paid a final dividend for the year ended 2013 of RM1.31 per ordinary share amounting to RM300 million as proposed in the previous year's directors' report. The dividend was paid on 15 April 2014. The Bank also paid an interim dividend of RM1.092 per ordinary share amounting to RM250 million in respect of financial year 2014 on 22 September 2014.

The directors now recommend a final dividend of RM1.31 per ordinary share amounting to RM300 million in respect of the current financial year. This dividend will be recognised in the subsequent financial period upon approval by the owner of the Bank.

### Reserves and Provisions

There were no material transfers to or from reserves or provisions during the financial year under review except as disclosed in the financial statements.

### Other statutory information

Before the financial statements of the Group and of the Bank were finalised, the directors took reasonable steps to ascertain that:

i) all known bad debts have been written off and adequate provision made for doubtful debts, and
ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

At the date of this report, the directors are not aware of any circumstances:

i) that would render the amount written off for bad debts, or the amount of provision for doubtful debts, in the financial statements of the Group and of the Bank inadequate to any substantial extent,
ii) that would render the value attributed to the assets in the financial statements of the Group and of the Bank misleading, or
iii) which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate, or
iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Bank misleading.

At the date of this report, there does not exist:

i) any charge on the assets of the Group or of the Bank that has arisen since the end of the financial year and which secures the liabilities of any other person, or

ii) any contingent liability in respect of the Group or of the Bank that has arisen since the end of the financial year other than in the ordinary course of business.

No contingent liability or other liability of any Bank in 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 Group and of the Bank to meet their obligations as and when they fall due.

In the opinion of the directors, the financial performance of the Group and of the Bank for the financial year ended 31 December 2014 has not been substantially affected by any item, transaction, or event of a material and unusual nature, nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

**2014 Business Strategy**

The Malaysian economy registered a strong growth of 5.6% in 3Q 2014 (2013: 5.1%), higher than the initial forecast of 4.5%-5.5% for 2014. The global economy continued to expand at a moderate pace as the US economy continued to show broader signs of improvements. Growth in the Eurozone area remains subdued, whilst Asia economic activities remain resilent. Malaysia's growth was supported by private sector demand and continued positive growth in net exports of goods and services.

Amidst this backdrop, the Group maintained a respectable performance in 2014. The Group remained strong in liquidity, capital strength and cost-efficiency, while continuing to improve customer service and product innovation.
RAM Ratings Services Berhad has reaffirmed HSBC Bank Malaysia Berhad's and its wholly owned subsidiary, HSBC Amanah Malaysia Berhad's AAA/P1 ratings, reflecting the Group's robust asset quality and strong financial standing. The Bank maintained its market leader position in various segments and won numerous awards in 2014.

In a move to embody values congruent with responsible sales conduct, the Retail Banking and Wealth Management (RBWM) segment has introduced a new incentive framework in 2014 which continue to focus on values based measures to provide better customer experience and sales quality to the customers. There were additions in the range and diversity of wealth and asset management products and services offered in 2014, complemented by ongoing campaigns to enhance relationship based banking with our customers, promote customer engagement and awareness. This also includes re-launching of Premier and Advance proposition to offer improved services for our affluent customers.

The Group's Global Banking & Markets (GBM) segment continues to take advantage of its debt capital market (DCM) leadership and expertise to secure key deals, and once again asserted its market leadership position among foreign banks in the debt capital markets industry by maintaining HSBC's position as the Best Debt House, Malaysia for the eighth consecutive year. GBM continues to drive Renminbi (RMB) initiatives and was awarded Best Renminbi (Offshore) Offering in 2014.

In line with Global de-risking activities, the Commercial Banking (CMB) segment has exited from certain market segments in 2014. Payments and Cash Management (PCM) received the Euro Awards for "Best Domestic Cash Management Bank" for the 8th consecutive year, despite struggling in a very competitive liabilities market for 2014. Whilst there was margin compression coupled with weaker global demand, Global Trade and Receivables Finance (GTRF) have shown improvement in trade balances through ongoing focus on customers.

At HSBC Malaysia, we continue to invest in the long term future of the community in which we operate. We focus our investments around education, environmental and community development initiatives because we believe they provide the fundamental building blocks to driving economic development, helping to create thriving communities. The Group endeavours to contribute towards changing people's lives and the environment they live in for the better, and encourages active participation from our colleagues in all corporate sustainability initiatives. The group's approach to sustainability is about managing our business responsibly whilst ensuring continued success for the long term.

**Performance Review 2014**

The Group recorded profit before tax of RM1,487 million for the year ended 31 December 2014, a decrease of 1.7% or RM25 million compared against history. The lower profit was due to lower operating income of RM23 million, higher operating expenses of RM101 million, partially cushioned by lower loan/financing impairment charges of RM97 million.

Lower operating income was primarily due to lower net trading income (-RM171 million or 31.8%), on lower gain from foreign currency, rates, and debt securities. Lower volatility in the market specifically in the first three quarters of the year had reduced foreign currency volume and lower demand of Ringgit securities resulted in lower gains from sale of securities. Meanwhile, net interest income improved (+RM116 million or 8.2%), in tandem with the growth in average customer advances.

Operating expenses grew, on higher intragroup expenses, increase in promotion and marketing related expenses and higher personnel expenses.

Loan/financing impairment charges decreased, primarily due to lower individual impairment charges coupled with higher release in provision on corporates and mortgages, as well as lower collective impairment provisions due to improvements in the asset quality of key collective portfolio assets, primarily in the unsecured consumer lending portfolio.

The Group's capital and liquidity ratios remain strong and well above regulatory requirements.

Total balance sheet size at 31 December 2014 stood at RM83 billion, RM3.2 billion higher compared against 31 December 2013 (RM79.8 billion), mainly on higher deposits from customers, which were mainly deployed into investments available for sale.

**DIRECTORS' REPORT (Cont'd)**

**Outlook for 2015**

Malaysia's real Gross Domestic Product (GDP) is expected to grow between 4.5% and 5.5% in 2015. The government plans to achieve this GDP growth by boosting exports and accelerating private investment without cutting its RM48.5 billion development expenditure in the revised 2015 budget.

As per International Monetary Funds (IMF), ASEAN economic growth is expected to be sustained at an average of 5.3% over the next 5 years mainly due to the rising middle class population. The ASEAN economic and financial integration will cushion some of negative external factors in driving growth in Malaysia.

Inflation is expected to increase to 4%-5% largely due to the implementation of Goods and Services Tax (GST) and the removal of fuel subsidies. The Monetary Policy Committee raised the Overnight Policy Rate (OPR) by 25 basis points to 3.25% on 10 July 2014. The current stance of monetary policy remains accommodative and is assessed to be appropriate, and Bank Negara Malaysia (BNM) is likely to keep the OPR unchanged in 2015.

Challenges ahead for banking industry will be managing operating costs and achieving a reasonable revenue growth without taking on unnecessarily high credit and market risks as both consumer spending and private investment are expected to moderate in 2015. Funding costs for banks are expected to rise in 2015 with the implementation of Basel III liquidity ratio in 2015.

Lending/ financing growth in banking industry will continue to be moderate this year due to slower economic growth and the impact of BNM's macro prudential measures. Growth in household lending/ financing sector is expected to decline to below 10% due to slow down in personal loans and advances despite a steady growth in loans/ financing for residential properties. Business loans/ financing sector will likely stabilise with growth of 6% to 7%, with overall loan/ financing growth anticipated to be in the range of 8% to 9% in 2015

The Group's priorities in 2015 remain unchanged; to leverage on our increased resource investments into the business, grow both the business and dividends with new distribution channels and increased productivity across existing channels, implement the highest global standards of conduct and compliance, and streamline processes and procedures for the benefit of the customers. The Group will continue to invest in Premier and Advance propositions and expanding its wealth management offerings. Leveraging on HSBC Group expertise, the Group is able to provide holistic banking service solutions to our existing and new corporate customers. Further, the Group will capitalise on the HSBC Group's international connectivity for cross border trade initiatives and offer banking services for inbound investments by HSBC Group customers into Malaysia.

The Group has adopted the relationship based approach (as opposed to the product push approach) for a number of years and this journey will continue.

**Awards won during the year**

HSBC Bank Malaysia

1. Best Bank In Malaysia – The Asset Triple A Country Awards 2014 (12th consecutive year)
2. Best Debt House, Malaysia – The Asset Triple A Country Awards 2014 (8th consecutive year)
3. Best Foreign Bank, Malaysia - Alpha Southeast Asia Best Financial Institution Awards 2014(6th consecutive year)
4. Best Renminbi (Offshore) Offering for *Cagamas Global's RMB1.5 billion 3.7% bond due 2017* – FinanceAsia Achievement Awards 2014
5. Best Sub-Custodian, Malaysia – The Asset Triple A Asset Servicing Awards 2014
6. Best Domestic Cash Management Bank – Euromoney Cash Management Survey 2014 (8th consecutive year)
7. No.1 Sub Custodian – Global Investor ISF 2013/2014 Sub-Custody Survey (5th consecutive year)
8. Best Foreign Commercial Bank in Malaysia – FinanceAsia Country Awards for Achievement 2014
9. Best Individual in Sales in Malaysian Ringgit Bonds, Yap Kah Wei, HSBC Malaysia – The Asset Benchmark Research Awards 2014
10. Best Foreign Currency Bond Deal of the Year in Southeast Asia for *Cagamas' RMB1.5 billion (US$244 million) offshore RMB bond* - Alpha Southeast Asia Best Financial Institution Awards 2014
11. Best Regional Mobile Banking Project Award 2014 – The Asian Banker
12. Largest Payment Volume for Visa Signature - Visa Malaysia Bank Awards (2nd consecutive year)

HSBC Amanah

1. Best Sukuk House - Euromoney Islamic Finance Awards 2014
2. Best Islamic Project Finance House - Euromoney Islamic Finance Awards 2014
3. Most Outstanding Islamic Corporate Banking – Kuala Lumpur Islamic Finance Forum 2014 (KLIFF 2014)
4. Corporate Finance Deal of the Year for *Sime Darby Global US$800 million Dual Tranche Sukuk* - Islamic Finance News Deals of the Year 2014
5. Wakalah Deal of the Year for *PT Astra Sedaya Finance US$50 million Wakalah Syndicated Financing* – Islamic Finance News Deals of the Year 2014
6. Best Corporate *Sukuk*, for *the Sime Darby US$800 million 5-year and 10-year sukuk* - The Asset Triple A Islamic Finance Awards 2014
7. Best New *Sukuk*, for *the Sime Darby US$800 million 5-year and 10-year sukuk* - The Asset Triple A Islamic Finance Awards 2014
8. Islamic Banker of the Year - Rafe Haneef, CEO, HSBC Amanah - The Asset Triple A Islamic Finance Awards 2014
9. Islamic Asset Management House, Saudi Arabia - The Asset Triple A Islamic Finance Awards 2014
10. *Sukuk* House of the Year, Middle East - The Asset Triple A Islamic Finance Awards 2014
11. Best Islamic Project Finance House - The Asset Triple A Islamic Finance Awards 2014
12. Best Quasi-sovereign *Sukuk*, for *General Authority of Civil Aviation 15.2 billion Saudi riyal 10-year sukuk* - The Asset Triple A Islamic Finance Awards 2014
13. Best Bank Capital *Sukuk*, for *Dubai Islamic Bank US$1 billion tier 1 sukuk* - The Asset Triple A Islamic Finance Awards 2014
14. Best Islamic Loan Syndication, for *National Industrialization Company (TASNEE) 4 billion Saudi riyal eight-year murabaha facility* - The Asset Triple A Islamic Finance Awards 2014
15. Best Islamic Loan Syndication - Highly Commended, for *Saudi Aramco Mobil Refinery US$1 billion 10-year term murabaha facility and 1.5 billion Saudi riyal revolving murabaha facility* - The Asset Triple A Islamic Finance Awards 2014
16. Best Deal, Bangladesh, for *Abul Khair Steel Melting US$90 million conventional and Islamic financing* - The Asset Triple A Islamic Finance Awards 2014

**Awards won during the year (Cont'd)**

17. Best Deal, Qatar, for *Ooredoo US$1.25 billion five-year sukuk* - The Asset Triple A Islamic Finance Awards 2014
18. Best Deal, Saudi Arabia, for *Saudi Electricity Company US$2 billion 10-year and 30-year sukuk* - The Asset Triple A Islamic Finance Awards 2014
19. Best Deal, Turkey, for *Bank Asya US$250 million tier II sukuk* - The Asset Triple A Islamic Finance Awards 2014
20. Best Islamic Financing, for *Hong Kong government's $1 billion five-year sukuk* – FinanceAsia Achievement Awards 2014
21. Best Sovereign Bond, for *The Government of the Hong Kong Special Administrative Region of the People's Republic of China's US$1billion Red S/144A 5-year Ijarah Sukuk* – Global Capital Asia / Asiamoney Regional Capital Markets Awards 2014
22. Best Sovereign Bond Deal of the Year in Southeast Asia for *The Republic of Indonesia's US$1.5 billion sukuk* - Alpha Southeast Asia Best Financial Institution Awards 2014
23. Most Innovative Islamic Finance Deal of the Year in Southeast Asia for *EXIM Bank of Malaysia's US$300 million sukuk* - Alpha Southeast Asia Best Financial Institution Awards 2014
24. Emerging Asia Deal of the Year for *Hong Kong US$1 billion Sukuk Ijarah* - Islamic Finance News Deals of the Year 2014
25. Indonesia Deal of the Year for *Republic of Indonesia US$1.5 billion 144A Sukuk* - Islamic Finance News Deals of the Year 2014
26. Trade Finance Deal of the Year for *EXIM USD$300 million Sukuk Wakalah* - Islamic Finance News Deals of the Year 2014
27. Murabahah Deal of the Year for *EXIM USD$300 million Sukuk Wakalah* - Islamic Finance News Deals of the Year 2014

**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:

- Peter Wong Tung Shun
- Mukhtar Malik Hussain
- Ching Yew Chye
- Datuk Shireen Ann Zaharah Binti Muhiudeen
- Lee Choo Hock
- Tan Kar Leng @ Chen Kar Leng *(appointed on 2 April 2014)*
- Tan Sri Dato' Tan Boon Seng @ Krishnan *(appointed on 2 April 2014)*

All the Directors served throughout the year save for Tan Kar Leng @ Chen Kar Leng and Tan Sri Dato' Tan Boon Seng @ Krishnan who were appointed on 2 April 2014. Tan Sri Dato' Sulaiman bin Sujak, Dato' Henry Sackville Barlow and Datuk Ramli bin Ibrahim retired at the Annual General meeting on 15 April 2014 and Baldev Singh s/o Gurdial Singh @ Nikah Singh ceased to be a Director on 9 November 2014.

In accordance with Article 77 and 78 of the Articles of Association, all directors shall retire from the Board at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Section 129(2) of the Companies Act, 1965, Ms Tan Kar Leng @ Chen Kar Leng being seventy years (70) of age, shall retire at the Annual General Meeting, and being eligible, offer herself for reappointment in accordance with Section 129(6) of the Companies Act, 1965.

The interests and deemed interests in the shares and options over shares of the Bank and of its related corporations (other than wholly-owned subsidiaries) of those who were directors at financial year end (including the interests of the spouses or children of the directors who themselves are not directors of the Bank) as recorded in the Register of Directors' Shareholdings are as follows:

| | Number of Shares | | | |
|---|---|---|---|---|
| Name | Balance at 1.1.2014 (or at date of appointment) (Restated) | Bought | (Sold) | Balance at 31.12.2014 |
| **HSBC Holdings plc** | | | | |
| **Ordinary shares of USD0.50** | | | | |
| Peter Wong Tung Shun | 878,163 ([1]) | 106,974 ([1]) | - | 985,137 ([1]) |
| Mukhtar Malik Hussain | 919,503 | 114,750 | - | 1,034,253 |
| Ching Yew Chye | 57,995 | 2,831 | (30,000) | 30,826 |

([1]) *Including the interest of spouse.*

**Directors and their Interests in Shares (Cont'd)**

| | Number of Shares | | | | |
|---|---|---|---|---|---|
| Name | Shares held at 1.1.2014 (or at date of appointment) (Restated) | Shares issued during year ^ | (Shares forfeited during the year) | (Shares vested during the year) | Shares held at 31.12.2014 |
| **HSBC Holdings plc** | | | | | |
| **HSBC Share Plan** | | | | | |
| Peter Wong Tung Shun | 765,649 | 893,147 | - | (354,327) | 1,304,469 |
| Mukhtar Malik Hussain | 244,956 | 315,755 | - | (175,075) | 385,636 |

^ *Includes scrip dividends*

None of the other directors holding office at 31 December 2014 had any interest in the ordinary shares and options over shares of the Bank and of its related corporations during the financial year.

### Directors' Benefits

Since the end of the previous financial year, no Director of the Bank has received nor 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 related corporations) 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.

There were no arrangements to which the Bank is a party during and at the end of the financial year which had the objective of enabling the Directors to 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 The Hongkong and Shanghai Banking Corporation Limited, a company incorporated in Hong Kong and HSBC Holdings plc, a company incorporated in England, as the immediate and ultimate holding companies of the Bank respectively.

### Auditors

The accounts have been audited by KPMG. In line with HSBC Group, the Group and the Bank are in the process of appointing PricewaterhouseCoopers Malaysia as the auditor for the year ending 31 December 2015.

Signed on behalf of the Board of Directors in accordance with a resolution of the directors:

.....................................................Director
**MUKHTAR MALIK HUSSAIN**

Kuala Lumpur, Malaysia
10 February 2015

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

## DIRECTORS' STATEMENT

In the opinion of the directors:

I, Mukhtar Malik Hussain a director of HSBC Bank Malaysia Berhad, do hereby state on behalf of the directors that, in our opinion, the financial statements set out on pages 37 to 145 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2014 and of their financial performance and cash flows of the Group and of the Bank for the year then ended.

Signed at Kuala Lumpur, Malaysia this 10 February 2015

Signed on behalf of the Board of Directors in accordance with a resolution of the directors:

.......................................Director
**MUKHTAR MALIK HUSSAIN**

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

## STATUTORY DECLARATION

I, Saw Say Pin, 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 37 to 145 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 above named in Kuala Lumpur, Malaysia on 10 February 2015.

..................................................................

**SAW SAY PIN**

BEFORE ME:

..................................................................
Signature of Commissioner for Oaths

PESURUHJAYA SUMPAH
No. W 633
MURALITHERAN
ART PILLAI
MALAYSIA

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No. 55, Jalan Raja Chulan
50200 Kuala Lumpur

**KPMG (Firm No. AF 0758)**
Chartered Accountants
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**INDEPENDENT AUDITORS' REPORT**
**TO THE MEMBERS OF HSBC BANK MALAYSIA BERHAD**
**(Company No. 127776-V)**
**(Incorporated in Malaysia)**

**Report on the Financial Statements**

We have audited the financial statements of HSBC Bank Malaysia Berhad, which comprise the statements of financial position as at 31 December 2014 of the Group and of the Bank, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 37 and 145.

***Directors' Responsibility for the Financial Statements***

The Directors of the Bank are responsible for the preparation of these financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group and the Bank's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Company No. 127776-V

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2014 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

**Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the Act.

b) We are satisfied that the accounts of the subsidiaries 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 financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

c) Our audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

**Other Matters**

This report is made solely to the members of the Group and the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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

Siew Chin Kiang @ Seow Chin Kiang
Approval Number: 2012/11/16 (J)
Chartered Accountant

Date: 10 February 2015

Petaling Jaya

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

## STATEMENTS OF FINANCIAL POSITION
## AT 31 DECEMBER 2014

| | Note | *Group* | | *Bank* | |
|---|---|---|---|---|---|
| | | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Assets** | | | | | |
| Cash and short-term funds | *6* | **7,839,057** | 15,454,507 | **8,077,960** | 12,558,786 |
| Securities purchased under resale agreements | | **2,265,607** | 2,877,270 | **2,265,607** | 2,877,270 |
| Deposits and placements with banks and other financial institutions | *7* | **3,109,649** | 4,011,340 | **4,780,622** | 5,203,425 |
| Financial assets held-for-trading | *8* | **2,947,082** | 2,333,390 | **2,927,027** | 2,243,731 |
| Financial investments available-for-sale | *9* | **17,103,489** | 6,499,601 | **12,968,166** | 5,158,595 |
| Loans, advances and financing | *10* | **45,260,697** | 44,659,904 | **34,753,154** | 35,484,730 |
| Derivative financial assets | *39* | **1,799,701** | 1,320,144 | **1,831,403** | 1,413,325 |
| Other assets | *12* | **663,092** | 761,686 | **563,960** | 738,904 |
| Statutory deposits with Bank Negara Malaysia | *13* | **1,479,060** | 1,384,160 | **999,998** | 993,598 |
| Investments in subsidiary companies | *14* | **-** | - | **660,021** | 660,021 |
| Property and equipment | *16* | **351,502** | 355,047 | **335,288** | 332,254 |
| Intangible assets | *17* | **61,603** | 55,352 | **61,601** | 55,343 |
| Tax recoverable | | **44,711** | 35,322 | **35,850** | 20,850 |
| Deferred tax assets | *18* | **71,653** | 86,976 | **63,896** | 79,883 |
| **Total assets** | | **82,996,903** | 79,834,699 | **70,324,553** | 67,820,715 |
| **Liabilities** | | | | | |
| Deposits from customers | *19* | **61,308,233** | 59,914,419 | **50,332,073** | 48,883,876 |
| Deposits and placements from banks and other financial institutions | *20* | **8,278,959** | 8,297,828 | **8,259,316** | 8,270,879 |
| Bills and acceptances payable | | **426,346** | 906,595 | **400,637** | 895,623 |
| Derivative financial liabilities | *39* | **1,606,375** | 1,098,453 | **1,634,302** | 1,160,067 |
| Other liabilities | *21* | **2,092,700** | 1,636,295 | **2,074,498** | 1,646,543 |
| Provision for taxation | | **-** | 36,905 | **-** | 36,905 |
| Multi-Currency Sukuk Programme | *22* | **1,001,854** | 500,000 | **-** | - |
| Subordinated liabilties | *23* | **1,275,382** | 1,005,071 | **1,275,382** | 1,005,071 |
| **Total liabilities** | | **75,989,849** | 73,395,566 | **63,976,208** | 61,898,964 |
| **Equity** | | | | | |
| Share capital | *24* | **114,500** | 114,500 | **114,500** | 114,500 |
| Reserves | *25* | **6,592,554** | 6,024,633 | **5,933,845** | 5,507,251 |
| Proposed dividend | | **300,000** | 300,000 | **300,000** | 300,000 |
| **Total equity attributable to owner of the Bank** | | **7,007,054** | 6,439,133 | **6,348,345** | 5,921,751 |
| **Total liabilities and equity** | | **82,996,903** | 79,834,699 | **70,324,553** | 67,820,715 |
| **Commitments and Contingencies** | *38* | **138,441,341** | 140,001,374 | **135,592,425** | 138,108,215 |

*The financial statements were approved and authorised for issue by the Board of Directors on 10 February 2015.*

*The accompanying notes form an integral part of the financial statements.*

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

## STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | *Note* | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Revenue | | **4,110,029** | 4,083,703 | **3,509,305** | 3,524,668 |
| Interest income | *26* | **2,423,768** | 2,285,724 | **2,466,282** | 2,322,282 |
| Interest expense | *26* | **(905,086)** | (882,635) | **(905,086)** | (882,635) |
| Net interest income | *26* | **1,518,682** | 1,403,089 | **1,561,196** | 1,439,647 |
| Fee and commission income | *27* | **489,023** | 491,867 | **489,053** | 491,897 |
| Fee and commission expense | *27* | **(37,442)** | (38,443) | **(37,442)** | (38,443) |
| Net fee and commission income | *27* | **451,581** | 453,424 | **451,611** | 453,454 |
| Net trading income | *28* | **365,967** | 536,641 | **385,986** | 544,379 |
| Income from Islamic banking operations | *29* | **546,228** | 509,869 | **-** | - |
| Other operating income | *30* | **37,556** | 39,765 | **167,984** | 166,110 |
| Operating income before impairment losses | | **2,920,014** | 2,942,788 | **2,566,777** | 2,603,590 |
| Loans / financing impairment charges and other credit risk provisions | *31* | **(107,709)** | (205,063) | **(39,120)** | (136,750) |
| Impairment losses on intangible assets | | **-** | (643) | **-** | (643) |
| Net operating income | | **2,812,305** | 2,737,082 | **2,527,657** | 2,466,197 |
| Other operating expenses | *32* | **(1,325,591)** | (1,224,904) | **(1,222,821)** | (1,141,676) |
| Profit before income tax expense | | **1,486,714** | 1,512,178 | **1,304,836** | 1,324,521 |
| Income tax expense | *33* | **(380,790)** | (392,977) | **(340,745)** | (349,294) |
| **Profit for the year** | | **1,105,924** | 1,119,201 | **964,091** | 975,227 |
| **Other comprehensive income / (expense)** | | | | | |
| ***Items that will subsequently be reclassified to profit or loss when specific conditions are met*** | | | | | |
| Revaluation reserve: | | | | | |
| Surplus on revaluation properties | | **14,231** | 6,233 | **14,231** | 6,233 |
| Deferred tax adjustment on revaluation reserve | | **(1,730)** | (5,707) | **(1,730)** | (5,707) |
| Cash flow hedge: | | | | | |
| Effective portion of changes in fair value | | **(64)** | (2) | **(64)** | (2) |
| Net amount transferred to profit or loss | | **-** | (366) | **-** | (366) |
| Available-for-sale reserve: | | | | | |
| Change in fair value | | **5,792** | (31,662) | **6,382** | (22,895) |
| Amount transferred to profit or loss | | **(11,071)** | 363 | **(11,071)** | 255 |
| Income tax credit relating to components of other comprehensive income | | **1,191** | 7,918 | **1,129** | 5,753 |
| **Other comprehensive income/(expense) for the year, net of income tax** | | **8,349** | (23,223) | **8,877** | (16,729) |
| **Total comprehensive income for the year** | | **1,114,273** | 1,095,978 | **972,968** | 958,498 |
| Profit attributable to the owner of the Bank | | **1,105,924** | 1,119,201 | **964,091** | 975,227 |
| Total comprehensive income attributable to the owner of the Bank | | **1,114,273** | 1,095,978 | **972,968** | 958,498 |
| Basic earnings per RM0.50 ordinary share | *34* | **482.9 sen** | 488.7 sen | **421.0 sen** | 425.9 sen |
| Dividends per RM0.50 ordinary share (net) | | | | | |
| - interim dividend paid | | **109.2 sen** | 109.2 sen | **109.2 sen** | 109.2 sen |
| - proposed final | | **131.0 sen** | 131.0 sen | **131.0 sen** | 131.0 sen |

*The financial statements were approved and authorised for issue by the Board of Directors on 10 February 2015.*

*The accompanying notes form an integral part of the financial statements.*

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

## STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

| Group (RM'000) | *Non-distributable* | | | | | | | | | *Distributable* | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Share capital* | *Share premium* | *Statutory reserve* | *Revaluation reserve* | *Capital redemption reserve* | *Available-for-sale reserve* | *Cash flow hedge reserve* | *Capital contribution reserve* | *Regulatory reserve** | *Retained profit* | *Total reserves* | *Dividends* | *Total equity* |
| **2014** | | | | | | | | | | | | | |
| Balance at 1 January | **114,500** | **741,375** | **164,500** | **166,049** | **190,000** | **(6,871)** | **48** | **95,470** | **-** | **4,674,062** | **6,024,633** | **300,000** | **6,439,133** |
| **Total comprehensive income for the year** | | | | | | | | | | | | | |
| Profit for the year | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **1,105,924** | **1,105,924** | **-** | **1,105,924** |
| **Other comprehensive income, net of income tax** | | | | | | | | | | | | | |
| Revaluation reserve: | | | | | | | | | | | | | |
| Transfer to retained profit upon realisation of depreciation | **-** | **-** | **-** | **(926)** | **-** | **-** | **-** | **-** | **-** | **926** | **-** | **-** | **-** |
| Surplus on revaluation of properties | **-** | **-** | **-** | **14,231** | **-** | **-** | **-** | **-** | **-** | **-** | **14,231** | **-** | **14,231** |
| Deferred tax adjustment on revaluation reserve | **-** | **-** | **-** | **(1,730)** | **-** | **-** | **-** | **-** | **-** | **-** | **(1,730)** | **-** | **(1,730)** |
| Cash flow hedge: | | | | | | | | | | | | | |
| Effective portion of changes in fair value | **-** | **-** | **-** | **-** | **-** | **-** | **(48)** | **-** | **-** | **-** | **(48)** | **-** | **(48)** |
| Available-for-sale reserve: | | | | | | | | | | | | | |
| Net change in fair value | **-** | **-** | **-** | **-** | **-** | **4,322** | **-** | **-** | **-** | **-** | **4,322** | **-** | **4,322** |
| Net amount transferred to profit or loss | **-** | **-** | **-** | **-** | **-** | **(8,426)** | **-** | **-** | **-** | **-** | **(8,426)** | **-** | **(8,426)** |
| *Total other comprehensive income* | ***-*** | ***-*** | ***-*** | ***11,575*** | ***-*** | ***(4,104)*** | ***(48)*** | ***-*** | ***-*** | ***926*** | ***8,349*** | ***-*** | ***8,349*** |
| Total comprehensive income for the year | **-** | **-** | **-** | **11,575** | **-** | **(4,104)** | **(48)** | **-** | **-** | **1,106,850** | **1,114,273** | **-** | **1,114,273** |
| Transfer relating to regulatory reserves | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **180,000** | **(180,000)** | **-** | **-** | **-** |
| **Transactions with the owner (the ultimate holding company), recorded directly in equity** | | | | | | | | | | | | | |
| Share based payment transactions | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **2,287** | **-** | **1,361** | **3,648** | **-** | **3,648** |
| Dividends paid to owner - 2013 final | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(300,000)** | **(300,000)** |
| Dividends paid to owner - 2014 interim | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(250,000)** | **(250,000)** | **-** | **(250,000)** |
| Proposed dividend - 2014 final | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(300,000)** | **(300,000)** | **300,000** | **-** |
| Balance at 31 December | **114,500** | **741,375** | **164,500** | **177,624** | **190,000** | **(10,975)** | **-** | **97,757** | **180,000** | **5,052,273** | **6,592,554** | **300,000** | **7,007,054** |
| 2013 | | | | | | | | | | | | | |
| Balance at 1 January | 114,500 | 741,375 | 164,500 | 167,322 | 190,000 | 16,602 | 324 | 90,923 | - | 4,106,664 | 5,477,710 | 300,000 | 5,892,210 |
| **Total comprehensive income for the year** | | | | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | - | - | - | 1,119,201 | 1,119,201 | - | 1,119,201 |
| **Other comprehensive income, net of income tax** | | | | | | | | | | | | | |
| Revaluation reserve: | | | | | | | | | | | | | |
| Transfer to retained profit upon realisation of depreciation | - | - | - | (1,799) | - | - | - | - | - | 1,799 | - | - | - |
| Surplus on revaluation of properties | - | - | - | 6,233 | - | - | - | - | - | - | 6,233 | - | 6,233 |
| Deferred tax adjustment on revaluation reserve | - | - | - | (5,707) | - | - | - | - | - | - | (5,707) | - | (5,707) |
| Cash flow hedge: | | | | | | | | | | | | | |
| Effective portion of changes in fair value | - | - | - | - | - | - | (2) | - | - | - | (2) | - | (2) |
| Net amount transferred to profit or loss | - | - | - | - | - | - | (274) | - | - | - | (274) | - | (274) |
| Available-for-sale reserve: | | | | | | | | | | | | | |
| Net change in fair value | - | - | - | - | - | (23,745) | - | - | - | - | (23,745) | - | (23,745) |
| Net amount transferred to profit or loss on disposal | - | - | - | - | - | 272 | - | - | - | - | 272 | - | 272 |
| *Total other comprehensive income* | *-* | *-* | *-* | *(1,273)* | *-* | *(23,473)* | *(276)* | *-* | *-* | *1,799* | *(23,223)* | *-* | *(23,223)* |
| Total comprehensive income for the year | - | - | - | (1,273) | - | (23,473) | (276) | - | - | 1,121,000 | 1,095,978 | - | 1,095,978 |
| **Transactions with the owner (the ultimate holding company), recorded directly in equity** | | | | | | | | | | | | | |
| Share based payment transactions | - | - | - | - | - | - | - | 4,547 | - | (3,602) | 945 | - | 945 |
| Dividends paid to owner - 2012 final | - | - | - | - | - | - | - | - | - | - | - | (300,000) | (300,000) |
| Dividends paid to owner - 2013 interim | - | - | - | - | - | - | - | - | - | (250,000) | (250,000) | - | (250,000) |
| Proposed dividend - 2013 final | - | - | - | - | - | - | - | - | - | (300,000) | (300,000) | 300,000 | - |
| Balance at 31 December | 114,500 | 741,375 | 164,500 | 166,049 | 190,000 | (6,871) | 48 | 95,470 | - | 4,674,062 | 6,024,633 | 300,000 | 6,439,133 |

* The Group and the Bank maintain a regulatory reserve to meet local regulatory requirements; the effect of this requirement is to restrict the amount of reserves that can be distributed to shareholders.

*The financial statements were approved and authorised for issue by the Board of Directors on 10 February 2015.*
*The accompanying notes form an integral part of the financial statements.*

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

**STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014 (Cont'd)**

| **Bank (RM'000)** | *Non-distributable* | | | | | | | | | *Distributable* | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Share capital* | *Share premium* | *Statutory reserve* | *Revaluation reserve* | *Capital redemption reserve* | *Available-for-sale reserve* | *Cash flow hedge reserve* | *Capital contribution reserve* | *Regulatory reserve** | *Retained profit* | *Total reserves* | *Dividends* | *Total equity* |
| **2014** | | | | | | | | | | | | | |
| Balance at 1 January | **114,500** | **741,375** | **114,500** | **166,049** | **190,000** | **(911)** | **48** | **94,178** | **-** | **4,202,012** | **5,507,251** | **300,000** | **5,921,751** |
| **Total comprehensive income for the year** | | | | | | | | | | | | | |
| Profit for the year | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **964,091** | **964,091** | **-** | **964,091** |
| **Other comprehensive income, net of income tax** | | | | | | | | | | | | | |
| Revaluation reserve: | | | | | | | | | | | | | |
| Transfer to retained profit upon realisation of depreciation | **-** | **-** | **-** | **(926)** | **-** | **-** | **-** | **-** | **-** | **926** | **-** | **-** | **-** |
| Surplus on revaluation of properties | **-** | **-** | **-** | **14,231** | **-** | **-** | **-** | **-** | **-** | **-** | **14,231** | **-** | **14,231** |
| Deferred tax adjustment on revaluation reserve | **-** | **-** | **-** | **(1,730)** | **-** | **-** | **-** | **-** | **-** | **-** | **(1,730)** | **-** | **(1,730)** |
| Cash flow hedge: | | | | | | | | | | | | | |
| Effective portion of changes in fair value | **-** | **-** | **-** | **-** | **-** | **-** | **(48)** | **-** | **-** | **-** | **(48)** | **-** | **(48)** |
| Available-for-sale reserve: | | | | | | | | | | | | | |
| Net change in fair value | **-** | **-** | **-** | **-** | **-** | **4,850** | **-** | **-** | **-** | **-** | **4,850** | **-** | **4,850** |
| Net amount transferred to profit or loss | **-** | **-** | **-** | **-** | **-** | **(8,426)** | **-** | **-** | **-** | **-** | **(8,426)** | **-** | **(8,426)** |
| *Total other comprehensive income* | **-** | **-** | **-** | ***11,575*** | **-** | ***(3,576)*** | ***(48)*** | **-** | **-** | ***926*** | ***8,877*** | **-** | ***8,877*** |
| Total comprehensive income for the year | **-** | **-** | **-** | **11,575** | **-** | **(3,576)** | **(48)** | **-** | **-** | **965,017** | **972,968** | **-** | **972,968** |
| Transfer relating to regulatory reserves | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **167,000** | **(167,000)** | **-** | **-** | **-** |
| **Transactions with the owner (the ultimate holding company), recorded directly in equity** | | | | | | | | | | | | | |
| Share based payment transactions | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **2,205** | **-** | **1,421** | **3,626** | **-** | **3,626** |
| Dividends paid to owner - 2013 final | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(300,000)** | **(300,000)** |
| Dividends paid to owner - 2014 interim | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(250,000)** | **(250,000)** | **-** | **(250,000)** |
| Proposed dividend - 2014 final | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(300,000)** | **(300,000)** | **300,000** | **-** |
| Balance at 31 December | **114,500** | **741,375** | **114,500** | **177,624** | **190,000** | **(4,487)** | **-** | **96,383** | **167,000** | **4,451,450** | **5,933,845** | **300,000** | **6,348,345** |
| 2013 | | | | | | | | | | | | | |
| Balance at 1 January | 114,500 | 741,375 | 114,500 | 167,322 | 190,000 | 16,068 | 324 | 89,760 | - | 3,778,581 | 5,097,930 | 300,000 | 5,512,430 |
| **Total comprehensive income for the year** | | | | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | - | - | - | 975,227 | 975,227 | - | 975,227 |
| **Other comprehensive income, net of income tax** | | | | | | | | | | | | | |
| Revaluation reserve: | | | | | | | | | | | | | |
| Transfer to retained profit upon realisation of depreciation | - | - | - | (1,799) | - | - | - | - | - | 1,799 | - | - | - |
| Surplus on revaluation of properties | - | - | - | 6,233 | - | - | - | - | - | - | 6,233 | - | 6,233 |
| Deferred tax adjustment on revaluation reserve | - | - | - | (5,707) | - | - | - | - | - | - | (5,707) | - | (5,707) |
| Cash flow hedge: | | | | | | | | | | | | | |
| Effective portion of changes in fair value | - | - | - | - | - | - | (2) | - | - | - | (2) | - | (2) |
| Net amount transferred to profit or loss | - | - | - | - | - | - | (274) | - | - | - | (274) | - | (274) |
| Available-for-sale reserve: | | | | | | | | | | | | | |
| Net change in fair value | - | - | - | - | - | (17,170) | - | - | - | - | (17,170) | - | (17,170) |
| Net amount transferred to profit or loss on disposal | - | - | - | - | - | 191 | - | - | - | - | 191 | - | 191 |
| *Total other comprehensive income* | - | - | - | *(1,273)* | - | *(16,979)* | *(276)* | - | - | *1,799* | *(16,729)* | - | *(16,729)* |
| Total comprehensive income for the year | - | - | - | (1,273) | - | (16,979) | (276) | - | - | 977,026 | 958,498 | - | 958,498 |
| **Transactions with the owner (the ultimate holding company), recorded directly in equity** | | | | | | | | | | | | | |
| Share based payment transactions | - | - | - | - | - | - | - | 4,418 | - | (3,595) | 823 | - | 823 |
| Dividends paid to owner - 2012 final | - | - | - | - | - | - | - | - | - | - | - | (300,000) | (300,000) |
| Dividends paid to owner - 2013 interim | - | - | - | - | - | - | - | - | - | (250,000) | (250,000) | - | (250,000) |
| Proposed dividend - 2013 final | - | - | - | - | - | - | - | - | - | (300,000) | (300,000) | 300,000 | - |
| Balance at 31 December | 114,500 | 741,375 | 114,500 | 166,049 | 190,000 | (911) | 48 | 94,178 | - | 4,202,012 | 5,507,251 | 300,000 | 5,921,751 |

* The Bank maintains a regulatory reserve to meet local regulatory requirements; the effect of this requirement is to restrict the amount of reserves that can be distributed to shareholders.

*The financial statements were approved and authorised for issue by the Board of Directors on 10 February 2015.*
*The accompanying notes form an integral part of the financial statements.*

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

**STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014**

| | *Group* | |
|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 |
| **Cash Flows from Operating Activities** | | |
| Profit before income tax expense | **1,486,714** | 1,512,178 |
| Adjustments for : | | |
| Property and equipment written off | **18** | 550 |
| Depreciation of property and equipment | **35,717** | 40,259 |
| Amortisation of intangible assets | **22,532** | 22,263 |
| Net losses/ (gains) on disposal of property and equipment | **460** | (456) |
| Net upwards revaluation on property | **(21)** | (20) |
| Impairment of intangibles | **-** | 643 |
| Net gain on financial instruments at fair value through profit or loss | **1,854** | - |
| Share-based payment transactions | **3,648** | 945 |
| Dividend income | **(1,415)** | (1,175) |
| Operating profit before changes in operating assets and liabilities | **1,549,507** | 1,575,187 |
| Decrease/ (Increase) in operating assets | | |
| Securities purchased under resale agreements | **611,663** | 320,746 |
| Deposits and placements with banks and other financial institutions | **901,691** | (1,018,347) |
| Financial assets held-for-trading | **(613,692)** | 2,263,717 |
| Loans, advances and financing | **(600,793)** | (2,394,009) |
| Derivative financial assets | **(479,557)** | (240,156) |
| Other assets | **98,530** | (468,369) |
| Statutory deposits with Bank Negara Malaysia | **(94,900)** | (54,001) |
| Increase/ (Decrease) in operating liabilities | | |
| Deposits from customers | **1,393,814** | (23,627) |
| Deposits and placements from banks and other financial institutions | **(18,869)** | 1,913,937 |
| Bills and acceptances payable | **(480,249)** | 402,246 |
| Derivative financial liabilities | **507,922** | 316,782 |
| Other liabilities | **476,677** | 38,661 |
| Net cash generated from operating activities | **3,251,744** | 2,632,767 |
| Income tax paid | **(412,300)** | (314,313) |
| Net cash generated from operating activities | **2,839,444** | 2,318,454 |
| **Cash Flows from Investing Activities** | | |
| Purchase of property and equipment | **(18,501)** | (20,534) |
| Purchase of intangible assets | **(28,783)** | (24,733) |
| Proceeds from disposal of property and equipment | **103** | 581 |
| Financial investments available-for-sale | **(10,609,167)** | 1,015,426 |
| Dividends received | **1,415** | 1,175 |
| Net cash (used in)/ generated from investing activities | **(10,654,933)** | 971,915 |
| **Cash Flows from Financing Activities** | | |
| Proceeds from subordinated liabilities | **250,039** | - |
| Issuance of Multi-Currency Sukuk Programme | **500,000** | - |
| Dividends paid | **(550,000)** | (550,000) |
| Net cash used in financing activities | **200,039** | (550,000) |
| **Net (decrease)/ increase in Cash and Cash Equivalents** | **(7,615,450)** | 2,740,369 |
| **Cash and Cash Equivalents at beginning of the year** | **15,454,507** | 12,714,138 |
| **Cash and Cash Equivalents at end of the year** | **7,839,057** | 15,454,507 |
| **Analysis of Cash and Cash Equivalents** | | |
| Cash and short-term funds | **7,839,057** | 15,454,507 |

*The financial statements were approved and authorised for issue by the Board of Directors on 10 February 2015.*

*The accompanying notes form an integral part of the financial statements.*

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

**STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014 (Cont'd)**

| | *Bank* | |
|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 |
| **Cash Flows from Operating Activities** | | |
| Profit before income tax expense | **1,304,836** | 1,324,521 |
| Adjustments for : | | |
| Property and equipment written off | **18** | 537 |
| Depreciation of property and equipment | **27,248** | 30,067 |
| Amortisation of intangible assets | **22,525** | 22,242 |
| Net losses/ (gains) on disposal of property and equipment | **460** | (456) |
| Net upwards revaluation on property | **(21)** | (20) |
| Impairment of intangibles | **-** | 643 |
| Net transfer of property and equipment to subsidiary | **-** | (80) |
| Share-based payment transactions | **3,626** | 823 |
| Dividend income | **(1,415)** | (1,175) |
| Operating profit before changes in operating assets and liabilities | **1,357,277** | 1,377,102 |
| Decrease/ (Increase) in operating assets | | |
| Securities purchased under resale agreements | **611,663** | 320,746 |
| Deposits and placements with banks and other financial institutions | **422,803** | (557,957) |
| Financial assets held-for-trading | **(683,296)** | 2,170,867 |
| Loans, advances and financing | **731,576** | (1,702,714) |
| Derivative financial assets | **(418,078)** | (298,459) |
| Other assets | **174,880** | (467,364) |
| Statutory deposits with Bank Negara Malaysia | **(6,400)** | (7,000) |
| Increase/ (Decrease) in operating liabilities | | |
| Deposits from customers | **1,448,197** | (2,414,382) |
| Deposits and placements from banks and other financial institutions | **(11,563)** | 1,996,763 |
| Bills and acceptances payable | **(494,986)** | 406,700 |
| Derivative financial liabilities | **474,235** | 367,571 |
| Other liabilities | **448,227** | 79,954 |
| Net cash generated from operating activities | **4,054,535** | 1,271,827 |
| Income tax paid | **(377,264)** | (289,396) |
| Net cash generated from operating activities | **3,677,271** | 982,431 |
| **Cash Flows from Investing Activities** | | |
| Purchase of property and equipment | **(16,611)** | (15,295) |
| Purchase of intangible assets | **(28,783)** | (24,732) |
| Proceeds from disposal of property and equipment | **103** | 581 |
| Financial investments available-for-sale | **(7,814,260)** | 1,099,808 |
| Dividend received | **1,415** | 1,175 |
| Net cash (used in)/generated from investing activities | **(7,858,136)** | 1,061,537 |
| **Cash Flows from Financing Activity** | | |
| Proceeds from Subordinated liabilities | **250,039** | - |
| Dividends paid | **(550,000)** | (550,000) |
| Net cash used in financing activity | **(299,961)** | (550,000) |
| **Net (decrease)/ increase in Cash and Cash Equivalents** | **(4,480,826)** | 1,493,968 |
| **Cash and Cash Equivalents at beginning of the year** | **12,558,786** | 11,064,818 |
| **Cash and Cash Equivalents at end of the year** | **8,077,960** | 12,558,786 |
| **Analysis of Cash and Cash Equivalents** | | |
| Cash and short-term funds | **8,077,960** | 12,558,786 |

*The financial statements were approved and authorised for issue by the Board of Directors on 10 February 2015.*

*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

### 1 General Information

HSBC Bank Malaysia Berhad ('the Bank') is principally engaged in the provision of banking and other related financial services. The subsidiaries of the Bank are principally engaged in the businesses of Islamic Banking and nominee services. Islamic Banking operations refer generally to the acceptance of deposits and granting of financing under the principles of Shariah. The Bank and its subsidiaries are collectively known as the Group.

There were no significant changes in these activities during the financial year.

### 2 Basis of Preparation

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

The financial statements of the Group and the Bank have been prepared in accordance with the Malaysian Financial Reporting Standards ('MFRS'), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The financial statements incorporate those activities relating to Islamic Banking which have been undertaken by the Bank's Islamic subsidiary.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Group and the Bank as they are either not applicable or not yet effective:-

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2014

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)*
- Amendments to MFRS 2, *Share-based Payment (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 8, *Operating Segments (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 13, *Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Defined Benefit Plans: Employee Contributions*
- Amendments to MFRS 124, *Related Party Disclosures (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 138, *Intangible Assets (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 140, *Investment Property (Annual Improvements 2011-2013 Cycle)*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016

- Amendments to MFRS 5, *Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 7, *Financial Instruments: Disclosures (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Amendments to MFRS 10, *Consolidated Financial Statements*, MFRS 12, *Disclosure of Interests in Other Entities* and MFRS 128, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*
- Amendments to MFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*
- MFRS 14, *Regulatory Deferral Accounts*
- Amendments to MFRS 101, *Presentation of Financial Statements – Disclosure Initiative*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 138, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 141, *Agriculture – Agriculture: Bearer Plants*

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**2 Basis of Preparation (Cont'd)**

***(a) Statement of compliance (Cont'd)***

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016 (Cont'd)

- Amendments to MFRS 119, *Employee Benefits (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 127, *Separate Financial Statements – Equity Method in Separate Financial Statements*
- Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)*

The Group and the Bank plan to apply the abovementioned amendments and interpretations from the annual period beginning 1 January 2016.

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017

- MFRS 15, Revenue from Contracts with Customers

The Group and the Bank plan to apply the abovementioned amendments from the annual period beginning 1 January 2017.

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments* (2014)

The Group and the Bank plan to apply the abovementioned amendments from the annual period beginning 1 January 2018.

The initial application of a standard that will be applied prospectively or which requires extended disclosures is not expected to have any financial impacts to the current and prior period's financial statement upon their first adoption.

The initial application of the above accounting standards, amendments and interpretation are not expected to have any material financial impact to the current period and prior period financial statements of the Group and the Bank upon their first adoption, except as mentioned below:-

**MFRS 9, Financial Instruments**

MFRS 9 replaces the guidance in MFRS 139: Financial Instruments, Recognition and Measurement on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 9.

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

The financial statements of the Group and the Bank have been prepared under the historical cost convention, except for the following assets and liabilities as disclosed in their respective accounting policy notes:

- Trading assets and liabilities
- Financial investments
- Property and equipment
- Derivatives and hedge accounting

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

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

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 2 Basis of Preparation (Cont'd)

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

The results of the Group and the Bank are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the financial statements. The significant accounting policies are described in Note 3 on the financial statements. The preparation of the financial statements in conformity with MFRSs requires management to make estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared.

Management believes that the Group and the Bank's critical accounting policies where judgement is necessarily applied are those which relate to impairment of loans, advances and financing and the valuation of financial instruments (see Note 5). There are no other significant areas of estimation uncertainty and critical judgments in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed above.

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

## 3 Significant Accounting Policies

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 the Bank.

### *(a) Basis of Consolidation*

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

**i) Subsidiaries**

Subsidiaries are entities, including structured entities, controlled by the Bank. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date the control ceases.

The Group and the Bank controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group and the Bank also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investments in subsidiaries are measured in the Bank's statement of financial position at cost less any impairment losses, unless the investment is held for sale or distribution. The cost of investments includes transaction cost.

**ii) Business combinations**

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**3 Significant Accounting Policies (Cont'd)**

***(a) Basis of Consolidation (Cont'd)***

**ii) Business combinations (Cont'd)**

For each business combination, the Group elects whether it measures the non-controlling interests in the acquirer either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than that related to the issuance of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

**iii) Acquisitions of non-controlling interests**

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against the Group reserves.

**iv) Loss of control**

Upon the loss of control of a subsidiary, the Group derecognizes the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that the control is lost. Subsequently, it is accounted for as equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

**v) Associates**

Associates are entities, including unincorporated entities, in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method less any impairment losses, unless it is classified as held for sale or distribution. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the associates, after adjustments, if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

When the Group ceases to have significant influence over an associate, any retained interest in the former associate at the date when significant influence is lost is measured at fair value and this amount is regarded as the initial carrying amount of a financial asset. The difference between the fair value of any retained interest plus proceeds from the interest disposed of and the carrying amount of the investment at the date when equity method is discontinued is recognised in profit or loss.

When the Group's interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not re-measured. Any gain or loss from the decrease in interest is recognised in profit or loss. Any gain or loss previously recognized in other comprehensive income are also reclassified proportionately to the profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of related assets/liabilities.

Investments in associates are measured in the Bank's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of the investment includes transaction costs.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**3 Significant Accounting Policies (Cont'd)**

***(a) Basis of Consolidation (Cont'd)***

**vi) Joint arrangements**

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decision about the activities that significantly affect the arrangement's returns.

The Group adopted MFRS 11, Joint Arrangements. Joint arrangements are classified and accounted for as follows:

- A joint arrangement is classified as "joint operation" when the Group or the Bank has the rights to the assets and obligations for the liabilities relating to an arrangement. The Group and the Bank account for each of its share of the assets, liabilities and transactions, including the share of those held or incurred jointly with the other investors, in relation to the joint operation.
- A joint arrangement is classified as a "joint venture" when the Group has rights only to the net assets of the arrangements. The Group accounts for its interest in the joint venture using the equity method.

**vii) Non-controlling interests**

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Bank, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Bank. Non-controlling interests in the results of the Group is presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of the profit or loss and other comprehensive income for the year between the non-controlling interests and owners of the Bank.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interests to have a deficit balance.

**viii) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity-accounted associates and joint ventures are eliminated against the investment to the extent of the Group's interest in the investees. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

***(b) Foreign Currencies***

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**3 Significant Accounting Policies (Cont'd)**

***(c) Revenue***

Revenue comprises gross interest income, fee and commission income, net trading income, investment income and other operating income derived from conventional and Islamic banking operations.

***(d) Interest Income and Expense / Islamic Finance Income and Expense***

Interest income and expense for all financial instruments of the Group and the Bank, except those classified as held-for-trading are recognised in "interest income" and "interest expense" in the statement of comprehensive income using the effective interest rate method. The effective interest rate method is a way of calculating the amortised cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the group estimates cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest/profit rate includes all amounts paid or received by the Group and the Bank that are an integral part of the effective interest/profit rate, including transaction costs and all other premiums or discounts.

Interest on impaired financial assets of the Bank is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expense of the Group and the Bank presented in the statement of comprehensive income include:-

- interest on financial assets and liabilities measured at amortised costs calculated on an effective interest rate basis;
- interest on available-for-sale investment securities calculated on an effective interest rate basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

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 applying the effective profit rate method in accordance with the principles of Shariah. Financing expense and income attributable on deposits and borrowings relating to Islamic Banking operations are amortised using the effective profit rate method in accordance with the principles of Shariah.

***(e) Fees and Commission, Net Trading Income and Other Operating Income***

Fee income is earned from a diverse range of services the Group and the Bank provide to their customers. Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed;
- income earned from the provision of services is recognised as revenue as the services are provided; and
- income which forms an integral part of the effective interest/profit rate of a financial instrument is recognised as an adjustment to the effective interest/profit rate and recorded in 'interest/finance income' Note 3 (d).

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**3 Significant Accounting Policies (Cont'd)**

***(e) Fees and Commission, Net Trading Income and Other Operating Income (Cont'd)***

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unlisted equity securities.

Net trading income comprises all gains and losses from realised and unrealised changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest income and expense.

Net income/ (expense) from financial instruments designated at fair value includes:
- all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through profit or loss, including liabilities under investment contracts;
- all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities designated at fair value through profit or loss; and
- interest income, interest expense and dividend income in respect of:
  - financial assets and financial liabilities designated at fair value through profit or loss; and
  - derivatives managed in conjunction with the above,

except for interest arising from debt securities issued by the group and derivatives managed in conjunction with those debt securities, which is recognised in 'Interest expense' (Note 3(d)).

***(f) Income tax***

Income tax comprises current tax and deferred tax. Income tax is recognised in the profit or loss except to the extent that it relates to a business combination or items recognised in other comprehensive income or directly in equity, in which case it is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable or receivable on the taxable income or loss for the year, calculated using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous financial years. The Group and the Bank provide for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities. Current tax assets and liabilities are offset when the Group and the Bank intend to settle on a net basis and the legal right to offset exists.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the balance sheet date. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the Group and the Bank have a legal right to offset.

Deferred tax relating to fair value of available-for-sale investments and cash flow hedging instruments which are charged or credited directly to other comprehensive income, is also charged or credited to other comprehensive income and is subsequently recognised in the profit or loss when the deferred fair value gain or loss is recognised in the profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**3 Significant Accounting Policies (Cont'd)**

***(g) Financial instruments***

***i) Initial recognition and measurement***

A financial asset or a financial liability is recognised in the statement of financial position when, and only when the Group or the Bank becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised as fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

***ii) Financial instrument categories and subsequent measurement***

The Group and the Bank categorise financial assets as follows:
– loans, advances and financing (Note 3(l))
– financial investments - held to maturity (Note 3(k)(i)),
  - available-for-sale (Note 3(k)(ii)),
– trading assets (Note 3(j))

The Group and the Bank classify their financial liabilities, other than financial guarantees, as measured at amortised cost or trading liabilities. (Notes 3(j), 3(r), 3(t))

***iii) Derecognition of financial assets and liabilities***

Financial assets are derecognised when the rights to receive cash flows from the assets have expired; or where the Group and the Bank have transferred its contractual rights to receive the cash flows of the financial assets, and have transferred substantially all the risks and rewards of ownership; or where both control and substantially all the risks and rewards are not retained.

Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged, cancelled, or expires.

***iv) Offsetting financial assets/liabilities and income/expenses***

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when, and only when, the Group and the Bank have a legal enforceable right to offset the recognised amounts and the Group and the Bank intend to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under the MFRSs, or for gains and losses arising from a group of similar transactions such as in the Group and the Bank's trading activity.

***v) Amortised cost measurement***

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest/profit method of any difference between the initial amounts recognised and the maturity amount, minus any reduction for impairment.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**3 Significant Accounting Policies (Cont'd)**

***(g) Financial instruments(Cont'd)***

***vi) Fair value measurement***

All financial instruments are recognised initially at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Group and the Bank recognise a trading gain or loss on inception of the financial instrument, being the difference between the transaction price and the fair value. When unobservable market data have a significant impact on the valuation of financial instruments, the entire initial difference in fair value from the transaction price as indicated by the valuation model is not recognised immediately in the profit or loss. Instead, it is recognised over the life of the transaction on an appropriate basis, when the inputs become observable, the transaction matures or is closed out, or when the Group and the Bank enter into an offsetting transaction.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value are measured in accordance with the Group and the Bank's valuation methodologies, which are described in Notes 5(ii).

***(h) Cash and cash equivalents***

For the purpose of the statements of cash flows, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments comprise cash at hand and bank balances, short term deposits and placements with banks maturing within one month.

***(i) Sale and Repurchase Agreements***

When securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received.

Securities purchased under commitments to sell ('reverse repos') are not recognised on the balance sheet and the consideration paid is recorded as an asset on the statement of financial position.

The difference between the sale and repurchase price is treated as interest/profit income and recognised over the life of the agreement.

***(j) Trading assets and trading liabilities***

Treasury bills, debt securities, equity securities, debt securities in issue, certain deposits and short positions in securities which have been acquired or incurred principally for the purpose of selling or repurchasing in the near term, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking are classified as held for trading. Financial assets or financial liabilities are recognised on trade date, when the Group and the Bank enter into contractual arrangements with counterparties to purchase or sell the financial instruments, and are normally derecognised when either sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs taken to the profit or loss. Subsequently, the fair values are remeasured, and gains and losses from changes therein are recognised in the profit or loss within 'Net trading income'.

In order to conform with the BNM presentation of the balance sheet to present financial instruments by types rather than by measurement, trading liabilities are not disclosed as a separate item on the face of the balance sheet. They are included into the respective types of financial liabilities instrument categories.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**3 Significant Accounting Policies (Cont'd)**

***(k) Financial investments***

Treasury bills, debt securities and equity securities intended to be held on a continuing basis, other than those designated at fair value, are classified as available for sale or held to maturity. Financial investments are recognised on trade date when the Group and the Bank enter into contractual arrangements with counterparties to purchase securities, and are normally derecognised when either the securities are sold or the borrowers repay their obligations.

***i) Held-to-maturity***

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group and the Bank have 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/profit rate method, less any impairment losses.

***ii) Available-for-sale***

Available-for-sale financial assets are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income in 'Available-for-sale investments reserve – fair value gains/(losses)' until the financial assets are either sold or become impaired. When available-for-sale financial assets are sold, cumulative gains or losses previously recognised in other comprehensive income are recognised in the profit or loss as 'Gains/losses from financial investments'.

Interest income is recognised on available-for-sale debt securities using the effective interest rate method, calculated over the asset's expected life. Premiums and/or discounts arising on the purchase of dated investment securities are included in the calculation of their effective interest rates. Dividends are recognised in the profit or loss when the right to receive payment has been established.

At each balance sheet date an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset and can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the profit or loss, is removed from other comprehensive income and recognised in the profit or loss.

Impairment losses for available-for-sale debt securities are recognised within 'Loan impairment charges and other credit risk provisions' in the profit or loss and impairment losses for available-for-sale equity securities are recognised within 'Gains/losses from financial investments' in the profit or loss.

The impairment methodologies for available-for-sale financial assets are set out in more detail below.

– **Available-for-sale debt securities**

When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, the Group and the Bank consider all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial reorganisation, or the disappearance of an active market for the debt security because of financial difficulties relating to the issuer.

These types of specific event and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

***(k) Financial investments (Cont'd)***

***ii) Available-for-sale (Cont'd)***

− **Available-for-sale equity securities.**
Objective evidence of impairment for available-for sale equity securities may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- Available-for-sale debt security.
  A subsequent decline in the fair value of the instrument is recognised in the profit or loss if, and only if, there is objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised directly in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss to the extent of the increase in fair value. If there is no longer objective evidence that the debt security is impaired, the impairment loss is also reversed through the profit or loss;
- Available-for-sale equity security.
  All subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised directly in other comprehensive income. Impairment losses recognised on the equity security are not reversed through the profit or loss. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the profit or loss, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost less cumulative impairment to date of the equity security.

***(l) Loans, Advances and Financing***

Loans, advances and financing to customers and placing with banks include financing and advances that originated from the Group and the Bank, which are not classified as held for trading or designated at fair value. Loans, advances and financing are recognised when cash is advanced to borrowers. They are derecognised when either the borrower repays its obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest/profit rate method, less any reduction from impairment or uncollectibility.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**3 Significant Accounting Policies (Cont'd)**

***(m) Impairment of loans, advances and financing***

Losses for impaired loans, advances and financing are promptly recognised when there is objective evidence that impairment of a loan/financing or portfolio of loans/financing has occurred or when principal or interest/profit or both are past due for more than ninety (90) days, whichever is sooner. Impairment allowances are calculated on individual loans/financing and on groups of loans/financing assessed collectively. Impairment losses are recorded as charges to the profit or loss. The carrying amount of impaired loans/financing on the balance sheet is reduced through the use of impairment allowance accounts. Losses which may arise from future events are not recognised.

The Group and Bank's allowance for impaired loans/financing are in conformity with MFRS 139 and Bank Negara Malaysia's "Guidelines on Classification and Impairment Provisions for Loans/Financing" issued on 1 January 2012.

**Individually assessed loans, advances and financing**

The factors considered in determining whether a loan/financing is individually significant for the purposes of assessing impairment include:
- the size of the loan/financing;
- the number of loans/financing in the portfolio; and
- the importance of the individual loan/financing relationship, and how this is managed.

Loans/financing that meet the above criteria will be individually assessed for impairment, except when volumes of defaults and losses are sufficient to justify treatment under a collective assessment methodology. Loans/financing considered as individually significant are typically to corporate and commercial customers and are for larger amounts, which are managed on an individual relationship basis. Retail lending portfolios are generally assessed for impairment on a collective basis as the portfolios generally consist of large pools of homogeneous loans/financing.

For all loans/financing that are considered individually significant, the Group and Bank assess on a case-by-case basis at each balance sheet date whether there is any objective evidence that a loan/financing is impaired. The criteria used by the Group and Bank to determine that there is such objective evidence include:
- known cash flow difficulties experienced by the borrower;
- contractual payments of either principal or interest being past due for more than 90 days;
- the probability that the borrower will enter bankruptcy or other financial realisation;
- a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees, where the concession is not insignificant; and
- there has been deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

For those loans/financing where objective evidence of impairment exists, impairment losses are determined considering the following factors:
- the Group/Bank's aggregate exposure to the customer;
- the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, the Group and the Bank and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;
- the ability of the borrower to obtain, and make payments in, the currency of the loan/financing if not denominated in local currency; and
- when available, the secondary market price of the debt.

The realisable value of security is determined based on the current market value when the impairment assessment is performed. The value is not adjusted for expected future changes in market prices; however, adjustments are made to reflect local conditions such as forced sale discounts.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**3 Significant Accounting Policies (Cont'd)**

***(m) Impairment of loans, advances and financing (Cont'd)***

Impairment losses are calculated by discounting the expected future cash flows of a loan/financing, which includes expected future receipts of contractual interest/profit, at the loan/financing's original effective interest/profit rate and comparing the resultant present value with the loan/financing's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

**Collectively assessed loans, advances and financing**

Impairment is assessed on a collective basis in two circumstances:
- to cover losses which have been incurred but have not yet been identified on loans /financing subject to individual assessment; and
- for homogeneous groups of loans, advances and financing that are not considered individually significant.

*Incurred but not yet identified impairment*
Individually assessed loans/financing for which no evidence of impairment has been specifically identified on an individual basis is grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective impairment. These credit risk characteristics may include country of origination, type of business involved, type of products offered, security obtained or other relevant factors. This reflects impairment losses that the Group and the Bank has incurred as a result of events occurring before the balance sheet date, which the Group and the Bank is not able to identify on an individual loan/financing basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans/financing within the group, those loans/financing are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:
- historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan/financing; and
- management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by local management for each identified portfolio. The factors that may influence this estimation include economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. As it is assessed empirically on a periodic basis the estimated period between a loss occurring and its identification may vary over time as these factors change.

*Homogeneous groups of loans, advances and financing*

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans, advances and financing that are not considered individually significant, because individual loan/financing assessment is impracticable.

Losses in these groups of loans/financing are recorded on an individual basis when individual loans/financing are written off, at which point they are removed from the group. Two alternative methods are used to calculate allowances on a collective basis:

***(m) Impairment of loans, advances and financing (Cont'd)***

**Collectively assessed loans, advances and financing (Cont'd)**

*Homogeneous groups of loans, advances and financing(Cont'd)*

- When appropriate empirical information is available, the Group and the Bank uses roll rate methodology. This methodology employs statistical analyses of historical data and experience of delinquency and default to estimate the amount of loans/financing that will eventually be written off as a result of the events occurring before the balance sheet date which the Group and the Bank is not able to identify on an individual loan/financing basis, and that can be reliably estimated. Under this methodology, loans/financing are grouped into ranges according to the number of days past due and statistical analysis is used to estimate the likelihood that loans/financing in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable. In addition to the delinquency groupings, loans/financing are segmented according to their credit characteristics as described above. Current economic conditions are also evaluated when calculating the appropriate level of allowance required to cover inherent loss. The estimated loss is the difference between the present value of expected future cash flows, discounted at the original effective interest rate of the portfolio, and the carrying amount of the portfolio.

- When the portfolio size is small or when information is insufficient or not reliable enough to adopt a roll rate methodology, the Group and the Bank adopt a basic formulaic approach based on historical loss rate experience. The period between losses occurring and its identification is explicitly estimated by local management, and is typically between six and twelve months.

The inherent loss within each portfolio is assessed on the basis of statistical models using historical data observations, which are updated periodically to reflect recent portfolio and economic trends. When the most recent trends in portfolio risk factors arising from changes in economic, regulatory or behavioural conditions are not fully reflected in the statistical models, they are taken into account by adjusting the impairment allowances derived solely from the historical loss experience to reflect these changes as at the balance sheet date.

These additional portfolio risk factors may include recent loan/financing portfolio growth and product mix, unemployment rates, bankruptcy trends, geographic concentrations, loan/financing product features (such as the ability of borrowers to repay adjustable-rate loans/financing where reset interest/profit rates give rise to increases in interest/profit charges), economic conditions such as national and local trends in housing markets and interest/profit rates, portfolio seasoning, account management policies and practices, current levels of write-offs, adjustments to the period of time between loss identification and write-off, changes in laws and regulations and other items which can affect customer payment patterns on outstanding loans, such as natural disasters. These risk factors, where relevant, are taken into account when calculating the appropriate level of impairment allowances by adjusting the impairment allowances derived solely from historical loss experience.

Roll rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

**Write-off of loans ,advances and financing**

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

**Reversal of impairment**

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan/financing impairment allowance account accordingly. The write-back is recognised in the profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 3 Significant Accounting Policies (Cont'd)

***(m) Impairment of loans, advances and financing (Cont'd)***

**Renegotiated loans/financing**

Loans/financing subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up to date loans/financing for measurement purposes, once a minimum number of payments required have been received. Loans/financing subject to collective impairment assessment whose terms have been renegotiated are segregated from other parts of the loan/financing portfolio for the purposes of collective impairment assessment, to reflect their risk profile. Loans/financing subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans/financing that have been classified as renegotiated retain this classification until maturity or derecognition.

A loan/financing that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan/financing is substantially a different financial instrument.

***(n) Property and Equipment***

**i) Property**

Property for own use, comprising freehold land and buildings, and leasehold land and buildings are carried at their revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and any accumulated impairment losses.

Revaluations on land and buildings are performed annually by professional qualified valuers, on a market basis, to ensure that the net carrying amount does not differ materially from the fair value. Surpluses arising on revaluation are credited firstly to the profit or loss to the extent of any deficits arising on revaluation previously charged to the profit or loss in respect of the same land and buildings, and are thereafter taken to the "Property revaluation reserve". Deficits arising on revaluation are first set off against any previous revaluation surpluses included in the "Property revaluation reserve" in respect of the same land and buildings, and are thereafter recognised in the profit or loss.

The gains or losses on disposal of property is determined by comparing the proceeds from disposal with the carrying amount of the property and is recognised net within "other operating income" or "other operating expenses" respectively in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

Freehold land is not depreciated. Depreciation of all other property is calculated to write off the cost of the assets on a straight line basis over the estimated useful lives of the assets concerned as follows: -

| | |
|---|---|
| Leasehold land | Over the lease term |
| Buildings on freehold land | 50 years |
| Buildings on leasehold land | Over the lease term |
| Improvements on freehold building | 10 years |
| Improvements on leasehold building | The shorter of 10 years and the lease term |

Property is subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**3 Significant Accounting Policies (Cont'd)**

***(n) Property and Equipment (Cont'd)***

**ii) Equipment**

Equipment, fixtures and fittings and motor vehicles are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight-line basis to write off the assets over their useful lives as follows: -

| | |
|---|---|
| Office equipment, fixtures and fittings | 5 to 10 years |
| Computer equipment | 3 to 7 years |
| Motor vehicles | 5 years |

Additions to other 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.

The gains or losses on disposal of an item of equipment is determined by comparing the proceeds from disposal with the carrying amount of the equipment and is recognised net within "other operating income" or "other operating expenses" respectively in the profit or loss.

Equipment is subject to review for impairment if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

***(o) Operating leases***

Leases, where the Group or the Bank does not assume substantially all the risks and rewards of ownership, are classified as operating leases. When the Group and the Bank are the lessees, the leased assets are not recognised in the statement of financial position of the Group or the Bank. Rentals payable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'General administrative expenses'.

***(p) Intangible Assets***

Intangible assets of the Group and the Bank represent computer software that have a finite useful life, and are stated at cost less accumulated amortisation and any accumulated impairment losses. Computer software includes both purchased and internally generated software. The cost of internally generated software comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred.

Amortisation of intangible assets is calculated to write off the cost of the intangible assets on a straight line basis over the estimated useful lives of 3 to 5 years. Intangible assets are subject to impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

***(q) Bills and Acceptances Payable***

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

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**3 Significant Accounting Policies (Cont'd)**

***(r) Debt securities issued, subordinated liabilities, multi-currency sukuk and deposits by customers and banks***

Financial liabilities are recognised when the Group and the Bank enter into the contractual provisions of the arrangements with counterparties, which are generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of financial liabilities, other than those measured at fair value through profit or loss and financial guarantees, is at amortised cost, using the effective interest method to amortise the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life of the instrument.

Subordinated liabilities of the Bank are measured at amortised cost using the effective interest method, except for the portions which are fair value hedged, which are then disclosed at their fair value. Interest expense on subordinated bonds of the Bank is recognised on an accrual basis.

***(s) Provisions***

Provisions for liabilities and charges are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation arising from past events, and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group and the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

***(t) Financial guarantee/ contracts***

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

Fee income recognized on financial guarantee contracts are amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognized in the profit or loss upon discharge of the guarantee.

***(u) Derivative financial instruments and hedge accounting***

Derivatives are initially recognised, and are subsequently remeasured, at fair value. Fair values of exchange traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models. Derivative assets and liabilities arising from different transactions are only offset for accounting purposes if the offsetting criteria are met.

Derivatives may be embedded in other financial instruments, for example, a convertible bond with an embedded conversion option. Embedded derivatives are treated as separate derivatives (bifurcated) when their economic characteristics and risks are not clearly and closely related to those of the host non-derivative contract; the terms of the embedded derivative would meet the definition of a stand-alone derivative if they were contained in a separate contract; and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with changes therein recognised in the profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 3 Significant Accounting Policies (Cont'd)

***(u) Derivative financial instruments and hedge accounting (Cont'd)***

Derivatives are classified as assets when their fair value is positive, or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the statement of comprehensive income. When derivatives are designated as hedges, the Group and the Bank classify them as either: (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedges') or (ii) hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ('cash flow hedges'). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow or net investment hedge provided certain criteria are met.

**Hedge accounting**

At the inception of a hedging relationship, the Group and the Bank document the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The Group and the Bank also require a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Interest on designated qualifying hedges is included in 'Net interest income'.

***i) Fair value hedge***

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the profit or loss, along with changes in the fair value of the hedged assets, liabilities or group thereof that are attributable to the hedged risk. If a hedging relationship no longer meets the criteria for hedge accounting, the hedge accounting is discontinued: the cumulative adjustment to the carrying amount of the hedged item is amortised to profit and loss based on a recalculated effective interest/profit rate over the residual period to maturity, unless the hedged item has been derecognised, in which case, it is released to the profit or loss immediately.

***ii) Cash flow hedge***

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

The accumulated gains and losses recognised in other comprehensive income are recycled to profit or loss in the periods in which the hedged item will affect the profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income are removed from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in other comprehensive income at that time remains in equity until the forecast transaction is eventually recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to the profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**3 Significant Accounting Policies (Cont'd)**

***(v) Financial instruments designated at fair value***

Financial instruments, other than those held for trading, are classified in this category if they meet the criteria set out below and are so designated irrevocably by management on initial recognition. The Group and the Bank may designate financial instruments at fair value when the designation:

- eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial instruments, or recognising the gains and losses different bases from related positions. Under this criterion, the main class of financial instruments designated by the Group and the Bank are:

  Long-term debt issues - the interest/ profit payable on certain fixed-rate long-term debt securities issued has been matched with the interest/ profit on 'receive fixed/pay variable' interest/ profit swaps as part of a documented interest/ profit rate risk management strategy. An accounting mismatch would arise if the debt securities issued were accounted for at amortised cost, because the related derivatives are measured at fair value with changes in the fair value recognised in the profit or loss. By designating the long-term debt at fair value, the movement in the fair value of the long-term debt will also be recognised in the profit or loss;

- applies to a groups of financial instruments are managed and their performance evaluated, on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that groups of financial instruments is reported to management on that basis. The Group and the Bank has documented risk management and investment strategies designed to manage and monitor market risk of those assets on net basis, after considering non-linked liabilities. Fair value measurement is also consistent with the regulatory reporting requirements under the appropriate regulations for these insurance operations; and

- relates to financial instruments containing one or more non-closely related embedded derivatives.

Designated financial assets are recognised at fair value when the Group and the Bank enter into contracts with counterparties, which is generally on trade date, and are normally derecognised when sold. Subsequent changes in fair values are recognised in the profit or loss in 'Net gain/(loss) from financial instruments fair value through profit and loss'.

***(w) 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 Mudharabah depositors as stipulated by Bank Negara Malaysia's "The Framework of Rate of Return".

As the Bank has ceased offering customer term deposits under the Mudharabah concept, the PER balance disclosed under other liabilities, which was a brought forward balance, will be utilised in accordance to BNM's guidelines on PER.

***(x) Employee Benefits***

***i) Short term employee benefits***

Short term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Group and the Bank have a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

***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 statement of comprehensive income as incurred.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**3 Significant Accounting Policies (Cont'd)**

***(y) Share based payments***

The Group and Bank enter into equity-settled share based payment arrangements with their employees as compensation for services provided by employees. Equity-settled share based payment arrangements entitle employees to receive equity instruments of the ultimate holding company, HSBC Holdings plc.

The cost of share-based payment arrangements with employees is measured by reference to the fair value of equity instruments on the date they are granted, and recognised as an expense on a straight-line basis over the vesting period, with a corresponding credit to the "Retained earnings". The vesting period is the period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied. The fair value of equity instruments that are made available immediately, with no vesting period attached to the award, are expensed immediately.

Fair value is determined by using market prices or appropriate valuation models, taking into account the terms and conditions upon which the equity instruments were granted. Vesting conditions include service conditions and performance conditions; any other features of a share-based payment arrangement are non-vesting conditions. Market performance conditions and non-vesting conditions are taken into account when estimating the fair value of equity instruments at the date of grant, so that an award is treated as vesting irrespective of whether the market performance condition or non-vesting condition is satisfied, provided all other vesting conditions are satisfied.

Vesting conditions, other than market performance conditions, are not taken into account in the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction, so that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. On a cumulative basis, no expense is recognised for equity instruments that do not vest because of a failure to satisfy non-market performance or service conditions.

Where an award has been modified, as a minimum, the expense of the original award continues to be recognised as if it had not been modified. Where the effect of a modification is to increase the fair value of an award or increase the number of equity instruments, the incremental fair value of the award or incremental fair value of the extra equity instruments is recognised in addition to the expense of the original grant, measured at the date of modification, over the modified vesting period.

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

***(z) Earnings per share***

The Group and the Bank present basic earnings per share ('EPS') data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholder of the Group and the Bank by the weighted average number of shares outstanding during the period.

***(aa) Dividends***

Dividends proposed after the balance sheet date, as disclosed as a separate component of shareholder's equity.

## 4 Financial risk management

### a) Introduction and overview

All of the Group and the Bank's activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Group and the Bank has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risks (includes foreign exchange, interest/profit rate and basis risk)
- operational risks

This note presents information about the Group and the Bank's exposure to each of the above risks, the Group and the Bank's objectives, policies and processes for measuring and managing risk, and the Group and the Bank's management of capital.

**Risk management framework**

The Group and 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 Group and the Bank regularly review 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 Group and the Bank's management of risk.

The Executive Committee and Board Risk Committee (constituted by non-executive directors), appointed by the Board of Directors, formulate risk management policy, monitor risk and regularly review the effectiveness of the Group and the Bank's risk management policies.

The Board Risk 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. In addition, a separate internal Risk Management Committee was set up in 2009 in line with the HSBC Group's Risk Governance Structure to oversee and ensure that risk issues across all businesses are appropriately managed, and that adequate controls exist. The Group and the Bank also has an internal Operational Risk and Internal Control Committee to oversee and manage operational risk and ensure that adequate controls are maintained over operational processes.

### b) Credit risk management

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its payment obligations under a contract. It arises principally from cash and deposit placements, direct lending, trade finance and holdings of investment debt securities. The Group and the Bank has dedicated standards, policies and procedures to control and monitor all such risks.

A Credit and Risk Management structure under the Chief Risk 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 Risk Officer, who also has strong oversight of credit, market, operational and sustainability risk, has a functional reporting line to the HSBC Asia Pacific Regional Chief Risk Officer.

The Group and the Bank have 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 acceptable quality where risk and return are commensurate. Reports are produced for the Risk Management Committee, Executive Committee, Board Risk Committee and the Board, covering:

- risk concentrations and exposures by industry (main sectors exposures);
- large customer group exposures;
- exposures by Customer Risk Rating (asset quality by CRR);

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

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

**b) Credit risk management (Cont'd)**

- large impaired accounts and impairment allowances;
- risk identification 'Worry & Watch' List trend and Top 10 Distressed names; and
- rescheduled and restructured loan/financing.

The Group and the Bank have systems in place to control and monitor the exposure at the customer and counterparty level. A regional Credit Review and Risk Identification (CRRI) team undertakes regular thematic reviews based on a representative sample of accounts to assess the level and trend of portfolio credit risk, integrity of risk rating, quality of credit risk assessment and the approval process as well as quality of credit risk management and control activities. Where risk ratings are considered to be inappropriate, CRRI will discuss with the management and their subsequent recommendations for revised grades must then be assigned to the facilities concerned.

In addition, the regional CRRI team undertakes periodic sampling to assess the quality of credit assessment, integrity of customer risk ratings, quality of management controls, adherence to policy and procedures and use of appropriate approval authority. Furthermore, credit risk surveillance is also undertaken by a local Risk Identification team to identity potential high risk accounts for remedial or mitigating actions to be taken at an early stage.

The Group and Bank's exposure to credit risk is shown in Note 4 b) i).

**Impairment assessment**

Individually impaired loans/financing and securities are loans/financing, advances and investment debt securities for which the Group and the Bank determine that there is objective evidence of impairment and they do not expect to collect all principal and interest/profit due according to the contractual terms of the loan/financing /investment security. These loans/financing are graded CRR 9-10 in the Group's internal credit risk rating system. Refer Note 4 b) i) for further information on the Group's internal credit risk grading system.

When impairment losses occur, the Group and the Bank reduce the carrying amount of loans/financing and advances through the use of an allowance account. When impairment of available-for-sale financial assets occurs, the carrying amount of the asset is reduced directly. For further details, see Note 3k) ii) and Note 3 m). Impairment allowances may be assessed and created either for individually significant accounts or, on a collective basis, for groups of individually significant accounts for which no evidence of impairment has been individually identified or for high-volume groups of homogeneous loans/financing that are not considered individually significant. It is the Group and the Bank's policy that allowances for impaired loans/financing are created promptly and consistently. Management regularly evaluates the adequacy of the established allowances for impaired loans/financing by conducting a detailed review of the loan/financing portfolio, comparing performance and delinquency statistics with historical trends and assessing the impact of current economic conditions.

**Past due but not impaired loans/financing and investment debt securities**

Past due but not impaired loans/financing and investment debt securities are those for which contractual interest/profit or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group and the Bank.

Examples of exposures past due but not impaired include overdue loans/financing fully secured by cash collateral; mortgages that are individually assessed for impairment, and that are in arrears less than 90 days, but where the value of collateral is sufficient to repay both the principal debt and potential interest; and short-term trade facilities past due for technical reasons such as delays in documentation, but where there is no concern over the creditworthiness of the counterparty.

**Loans/financing with renegotiated terms**

Loans/financing with renegotiated terms are loans/financing that have been restructured due to deterioration in the borrower's financial position and where the Group and the Bank have made concessions it would not otherwise consider. Once the loan/financing is restructured it remains in this category independent of satisfactory performance after restructuring.

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

**b) Credit risk management (Cont'd)**

**Write-off of loans, advances and financing**

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

In line with HSBC Global policy, lending/financing is made on the basis of the customer's capacity to repay, as opposed to placing primary reliance on credit risk mitigation. Depending on the customer's standing and the type of product, facilities may be provided unsecured. Mitigation of credit risk is nevertheless a key aspect of effective risk management and in the Group and Bank, takes many forms, the most common method of which is to take collateral. The principal collateral types employed by the Group and the Bank are as follows:

- under the residential and real estate business; mortgages over residential and financed properties;
- under certain Islamic specialised financing and leasing transactions (such as vehicle financing) where physical assets form the principal source of facility repayment, physical collateral is typically taken;
- in the commercial and industrial sectors, charges over business assets such as premises, stock and debtors;
- facilities provided to small and medium enterprises are commonly granted against guarantees by their owners/directors;
- guarantees from third parties can arise where facilities are extended without the benefit of any alternative form of security, e.g. where the Group and the Bank issues a bid or performance bond in favour of a non-customer at the request of another bank;
- under the institutional sector, certain trading facilities are supported by charges over financial instruments such as cash, debt securities and equities; and
- financial collateral in the form of marketable securities is used in much of the over-the-counter (OTC) derivatives activities and in the Group and the Bank's securities financing business (securities lending and borrowing or repos and reverse repos).

**Collateral held as security**

The Group and the Bank do not disclose the fair value of collateral held as security or other credit enhancements on loans, advances and financing past due but not impaired, or on individually assessed loans, advances and financing, as it is not practicable to do so.

The estimated fair value of collateral and other security enhancements held against impaired loans, advances and financing at 31 December 2014 amounted to RM787.6 million (2013: RM740.9 million) for the Group and RM679.1 million (2013: RM653.6 million) for the Bank.

Collateral especially properties are made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness. If excess funds arise after the debt/financing has been repaid, they are made available either to repay other secured lenders/financier with lower priority or are returned to the customer. The Group and the Bank do not generally occupy repossessed properties for its business use.

**Concentration of credit risk**

The Group and the Bank monitor concentration of credit risk by sector and geographical location. The analysis of concentration of credit risk from loans, advances and financing to customers is shown in Note 10 v) and 10 vii). The analysis of concentration of credit risk from loans and advances to banks and investment securities is shown in Note 4 b) ii.

**Financial assets held-for-trading**

The Group and Bank hold financial assets held-for-trading of RM2,947 million (2013: RM2,333 million) and RM2,927 million (2013: RM2,244 million) respectively. An analysis of the credit quality of the maximum credit exposure, based on the rating agency Standard & Poor's, is as disclosed in Note 8 to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

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

**b) Credit risk management (Cont'd)**

**Derivatives**

The International Swaps and Derivatives Association ('ISDA') Master Agreement is the Group's preferred agreement for documenting derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter products is conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or another pre-agreed termination event occurs. It is common, and the Group's preferred practice, for the parties to execute a Credit Support Annex ('CSA') in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties to mitigate the market contingent counterparty risk inherent in outstanding positions.

**Offsetting financial assets and liabilities**

The disclosures set out in the table below include financial assets and financial liabilities that are subject to an enforceable master netting agreement, irrespective of whether they are offset in the statement of financial position. Financial assets and financial liabilities are offset and the net amount is reports in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and liability simultaneously ('the offset criteria'). During the year, no financial assets or financial liabilities were offset in the statement of financial position because the ISDA does not meet the criteria for offsetting in the statement of financial position. The ISDA creates for the parties to the agreement, a right of set off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group and the Bank, or its counterparties. Financial instruments subject to offsetting, enforceable master netting agreements and similar agreements are shown as follows:-

| RM'000 | (i) Carrying amounts of financial instruments in the statement of financial position* Group/Bank | (ii) Financial instruments related to (i), that are subject to an enforceable master netting agreement Group & Bank | (iii) Financial instruments related to (ii) that are not offset Group & Bank | (iv) Cash Collateral Received Group & Bank | (v) Net amount of (i) less the sum of (iii) and (iv) Group/Bank |
|---|---|---|---|---|---|
| **31 Dec 2014** | | | | | |
| **Derivative financial assets** | **1,799,701/ 1,831,403** | **654,981** | **654,981** | **536,499** | **608,221/ 639,923** |
| **Derivative financial liabilities** | **1,606,375/ 1,634,302** | **654,981** | **654,981** | **435,205** | **516,189/ 544,116** |
| **31 Dec 2013** | | | | | |
| Derivative financial assets | 1,320,144/ 1,413,325 | 674,927 | 674,927 | 109,216 | 536,001/ 629,182 |
| Derivative financial liabilities | 1,098,453/ 1,160,067 | 674,927 | 674,927 | 276,654 | 146,872/ 208,486 |

** None of which were offset during the financial year*

**Settlement risk**

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt of cash, securities or equities. Daily settlement limits are established for counterparties to cover the aggregate of the Group and the Bank's transactions with each one on any single day. Settlement risk on many transactions, particularly those involving securities and equities, is substantially mitigated by settling through assured payment systems or on a delivery-versus-payment basis.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

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

**b) Credit Risk Management (Cont'd)**

**i) Exposure to credit risk**

| Group | 31 Dec 2014<br>Loans, advances and financing to customers<br>**RM'000** | Placement with banks*<br>**RM'000** | Investment Securities**<br>**RM'000** |
|---|---|---|---|
| Carrying amount | **45,260,697** | **13,214,313** | **17,086,581** |
| **Assets at amortised cost** | | | |
| Individually impaired: | | | |
| Gross amount | **688,245** | - | - |
| Allowance for impairment | **(234,520)** | - | - |
| Carrying amount | **453,725** | - | - |
| Past due but not impaired: | | | |
| Carrying amount | **3,029,001** | - | - |
| *Past due comprises:* | | | |
| *up to 29 days* | **2,073,415** | - | - |
| *30 - 59 days* | **399,812** | - | - |
| *60 - 89 days* | **555,774** | - | - |
| *90 - 179 days* | - | - | - |
| *180 days and over* | - | - | - |
| | **3,029,001** | - | - |
| Neither past due nor impaired: | | | |
| Strong | **24,548,027** | **13,213,613** | - |
| Medium-good | **9,068,896** | **700** | - |
| Medium-satisfactory | **7,205,673** | - | - |
| Substandard | **1,343,435** | - | - |
| Carrying amount | **42,166,031** | **13,214,313** | - |
| *of which includes accounts with renegotiated terms* | ***156,120*** | - | - |
| Collective allowance for impairment | **(388,060)** | - | - |
| Carrying amount-amortised cost | **45,260,697** | **13,214,313** | - |
| **Available-for-sale (AFS)** | | | |
| Neither past due nor impaired: | | | |
| Strong | - | - | **16,343,791** |
| Medium-good | - | - | **300,033** |
| Medium-satisfactory | - | - | **442,757** |
| Carrying amount*** | - | - | **17,086,581** |
| Carrying amount-fair value | - | - | **17,086,581** |

* Consists of cash and short term funds, deposits and placements with banks and other financial institutions and securities purchased under resale agreements.

** Excludes equity securities

*** No available-for-sale accounts were renegotiated during the year.

In addition to the above, the Group had entered into lending commitments of RM41,552.2 million. The Group had also issued financial guarantee contracts for which the maximum amount payable by the Group, assuming all guarantees are called on, is RM7,874.5 million.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

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

**b) Credit Risk Management (Cont'd)**

**i) Exposure to credit risk (Cont'd)**

| **Group** | **31 Dec 2013** Loans, advances and financing to customers RM'000 | Placement with banks* RM'000 | Investment Securities** RM'000 |
|---|---|---|---|
| Carrying amount | 44,659,904 | 22,343,117 | 6,482,694 |
| **Assets at amortised cost** | | | |
| Individually impaired: | | | |
| Gross amount | 792,365 | - | - |
| Allowance for impairment | (318,112) | - | - |
| Carrying amount | 474,253 | - | - |
| Past due but not impaired: | | | |
| Carrying amount | 2,778,541 | - | - |
| *Past due comprises:* | | | |
| *up to 29 days* | 1,781,965 | - | - |
| *30 - 59 days* | 496,681 | - | - |
| *60 - 89 days* | 499,895 | - | - |
| *90 - 179 days* | - | - | - |
| *180 days and over* | - | - | - |
| | 2,778,541 | - | - |
| Neither past due nor impaired: | | | |
| Strong | 25,025,442 | 22,280,619 | - |
| Medium-good | 8,393,178 | 62,498 | - |
| Medium-satisfactory | 7,702,880 | - | - |
| Substandard | 667,926 | - | - |
| Carrying amount | 41,789,426 | 22,343,117 | - |
| *of which includes accounts with renegotiated terms* | *205,423* | - | - |
| Collective allowance for impairment | (382,316) | - | - |
| Carrying amount-amortised cost | 44,659,904 | 22,343,117 | - |
| **Available-for-sale (AFS)** | | | |
| Neither past due nor impaired: | | | |
| Strong | - | - | 6,067,045 |
| Medium-good | - | - | 157,534 |
| Medium-satisfactory | - | - | 258,115 |
| Carrying amount | - | - | 6,482,694 |
| Carrying amount-fair value*** | - | - | 6,482,694 |

* Consists of cash and short term funds, deposits and placements with banks and other financial institutions and securities purchased under resale agreements.

** Excludes equity securities

*** No available-for-sale accounts were renegotiated during the year.

In addition to the above, the Group had entered into lending commitments of RM36,788.8 million. The Group had also issued financial guarantee contracts for which the maximum amount payable by the Group, assuming all guarantees are called on, is RM6,889.5 million.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

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

**b) Credit Risk Management (Cont'd)**

**i) Exposure to credit risk (Cont'd)**

| **Bank** | **31 Dec 2014**<br>Loans, advances and financing to customers<br>**RM'000** | Placement with banks*<br>**RM'000** | Investment Securities**<br>**RM'000** |
|---|---|---|---|
| Carrying amount | **34,753,154** | **15,124,189** | **12,951,258** |
| **Assets at amortised cost** | | | |
| Individually impaired: | | | |
| Gross amount | **526,018** | **-** | **-** |
| Allowance for impairment | **(190,699)** | **-** | **-** |
| Carrying amount | **335,319** | **-** | **-** |
| Past due but not impaired: | | | |
| Carrying amount | **2,331,616** | **-** | **-** |
| *Past due comprises:* | | | |
| *up to 29 days* | **1,623,055** | **-** | **-** |
| *30 - 59 days* | **297,410** | **-** | **-** |
| *60 - 89 days* | **411,151** | **-** | **-** |
| *90 - 179 days* | **-** | **-** | **-** |
| *180 days and over* | **-** | **-** | **-** |
| | **2,331,616** | **-** | **-** |
| Neither past due nor individually impaired: | | | |
| Strong | **19,229,966** | **15,123,489** | **-** |
| Medium-good | **7,127,912** | **700** | **-** |
| Medium-satisfactory | **5,163,157** | **-** | **-** |
| Substandard | **828,427** | **-** | **-** |
| Carrying amount | **32,349,462** | **15,124,189** | **-** |
| *of which includes accounts with renegotiated terms* | ***138,294*** | - | - |
| Collective allowance for impairment | **(263,243)** | **-** | **-** |
| Carrying amount-amortised cost | **34,753,154** | **15,124,189** | **-** |
| **Available-for-sale (AFS)** | | | |
| Neither past due nor impaired: | | | |
| Strong | **-** | **-** | **12,208,468** |
| Medium-good | **-** | **-** | **300,033** |
| Medium-satisfactory | **-** | **-** | **442,757** |
| Carrying amount*** | **-** | **-** | **12,951,258** |
| Carrying amount-fair value | **-** | **-** | **12,951,258** |

* Consists of cash and short term funds, deposits and placements with banks and other financial institutions and securities purchased under resale agreements.

** Excludes equity securities

*** No available-for-sale accounts were renegotiated during the year.

In addition to the above, the Bank had entered into lending commitments of RM34,582.5 million. The Bank had also issued financial guarantee contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is RM6,527.0 million.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

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

**b) Credit Risk Management (Cont'd)**

**i) Exposure to credit risk (Cont'd)**

| **Bank** | 31 Dec 2013 Loans, advances and financing to customers RM'000 | Placement with banks* RM'000 | Investment Securities** RM'000 |
|---|---|---|---|
| Carrying amount | 35,484,730 | 20,639,481 | 5,141,688 |
| **Assets at amortised cost** | | | |
| Individually impaired: | | | |
| Gross amount | 625,459 | - | - |
| Allowance for impairment | (276,975) | - | - |
| Carrying amount | 348,484 | - | - |
| Past due but not impaired: | | | |
| Carrying amount | 2,198,760 | - | - |
| *Past due comprises:* | | | |
| *up to 29 days* | 1,411,554 | - | - |
| *30 - 59 days* | 410,993 | - | - |
| *60 - 89 days* | 376,213 | - | - |
| | 2,198,760 | - | - |
| Neither past due nor individually impaired: | | | |
| Strong | 19,997,866 | 20,576,983 | - |
| Medium-good | 6,979,938 | 62,498 | - |
| Medium-satisfactory | 5,632,085 | - | - |
| Substandard | 590,623 | - | - |
| Carrying amount | 33,200,512 | 20,639,481 | - |
| *of which includes accounts with renegotiated terms* | *198,149* | - | - |
| Collective allowance for impairment | (263,026) | - | - |
| Carrying amount-amortised cost | 35,484,730 | 20,639,481 | - |
| **Available-for-sale (AFS)** | | | |
| Neither past due nor impaired: | | | |
| Strong | - | - | 4,726,039 |
| Medium-good | - | - | 157,534 |
| Medium-satisfactory | - | - | 258,115 |
| Carrying amount*** | - | - | 5,141,688 |
| Carrying amount-fair value | - | - | 5,141,688 |

* Consists of cash and short term funds, deposits and placements with banks and other financial institutions and securities purchased under resale agreements.

** Excludes equity securities

*** No available-for-sale accounts were renegotiated during the year.

In addition to the above, the Bank had entered into lending commitments of RM31,677.3 million. The Bank had also issued financial guarantee contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 4 Financial risk management (Cont'd)

### b) Credit Risk Management (Cont'd)

**i) Exposure to credit risk (Cont'd)**

The five credit quality classifications set out and defined below describe the credit quality of HSBC's lending, debt securities portfolios and derivatives. These five classifications each encompass a range of more granular, internal credit rating grades assigned to corporate and retail lending business, as well as the external ratings attributed by external agencies to debt securities. There is no direct correlation between the internal and external ratings at granular level, except to the extent each falls within a single quality classification.

| Credit quality of the Group's debt securities and other bills | External Credit Rating* |
|---|---|
| Strong | A- and above |
| Medium-good | BBB+ and BBB- |
| Medium-satisfactory | BB+ to B and unrated |
| Sub-standard | B- to C |
| Impaired | Default |

* External ratings have been aligned to the five quality classifications. The ratings of Standard and Poor's are cited, with those of other agencies being treated equivalently.

| Credit quality of the Group's corporate lending | Internal Credit Rating |
|---|---|
| Strong | CRR1 - CRR2 |
| Medium-good | CRR3 |
| Medium-satisfactory | CRR4 - CRR5 |
| Sub-standard | CRR6 - CRR8 |
| Impaired | CRR9 - CRR10 |

| Credit quality of the Group's retail lending | Internal Credit Rating |
|---|---|
| Strong | EL1 -EL2 |
| Medium-good | EL3 |
| Medium-satisfactory | EL4 - EL5 |
| Sub-standard | EL6 - EL8 |
| Impaired | EL9 - EL10 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

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

**b) Credit Risk Management (Cont'd)**

**ii) Concentration by sector and by location #**

| Group | **31 Dec 2014** | | 31 Dec 2013 | |
|---|---|---|---|---|
| | **Placement with banks* RM'000** | **Investment Securities** RM'000** | Placement with banks* RM'000 (Restated) | Investment Securities** RM'000 |
| Carrying amount | **13,214,313** | **17,086,581** | 22,343,117 | 6,482,694 |
| **By Sector** | | | | |
| Finance, insurance and business services | **13,041,377** | **1,401,364** | 21,920,126 | 1,647,473 |
| Others | **172,936** | **15,685,217** | 422,991 | 4,835,221 |
| | **13,214,313** | **17,086,581** | 22,343,117 | 6,482,694 |
| **By geographical location** | | | | |
| Within Malaysia | **12,273,350** | **17,086,581** | 20,898,475 | 6,482,694 |
| Outside Malaysia | **940,963** | **-** | 1,444,642 | - |
| | **13,214,313** | **17,086,581** | 22,343,117 | 6,482,694 |

| Bank | **31 Dec 2014** | | 31 Dec 2013 | |
|---|---|---|---|---|
| | **Placement with banks* RM'000** | **Investment Securities** RM'000** | Placement with banks* RM'000 (Restated) | Investment Securities** RM'000 |
| Carrying amount | **15,124,189** | **12,951,258** | 20,639,481 | 5,141,688 |
| **By Sector** | | | | |
| Finance, insurance and business services | **15,124,189** | **1,172,490** | 20,380,440 | 1,622,482 |
| Others | **-** | **11,778,768** | 259,041 | 3,519,206 |
| | **15,124,189** | **12,951,258** | 20,639,481 | 5,141,688 |
| **By geographical location** | | | | |
| Within Malaysia | **14,427,246** | **12,951,258** | 19,194,839 | 5,141,688 |
| Outside Malaysia | **696,943** | **-** | 1,444,642 | - |
| | **15,124,189** | **12,951,258** | 20,639,481 | 5,141,688 |

* Consists of cash and short term funds, deposits and placements with banks and other financial institutions and securities purchased under resale agreements.

** Excludes equity securities

# Concentration by sector and location for loans, advances and financing to customers is disclosed under Note 10 v) and 10 vii) to the financial statements.

**c) Liquidity and funding risk management**

Liquidity risk is the risk that the Group and the Bank do not have sufficient financial resources to meet their obligations when they fall due, or will have to do it 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 Group and the Bank maintain 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 Group and 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.

Current accounts and savings deposits payable on demand or at short notice form a significant part of HSBC's funding, and the Group and the Bank place considerable importance on maintaining their stability. For deposits, stability depends upon preserving depositor confidence in the Group and the Bank's capital strength and liquidity, and on competitive and transparent pricing. In aggregate, the Group and the Bank are net liquidity providers to the interbank market, placing significantly more funds with other banks than it borrows.

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 ALCO and regional Head Office. The Group and the Bank maintain strong liquidity positions and manage the liquidity profile of the assets, liabilities and commitments to ensure that cash flows are appropriately balanced and all obligations are met when due.

The Group and the Bank's liquidity and funding management process include:

- projecting cash flows and considering the level of liquid assets necessary in relation thereto;
- monitoring balance sheet advances to core funding 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;
- 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;
- stress testing and scenario analysis are important tools in HSBC's liquidity management framework. This will also include an assessment of asset liquidity under various stress scenerios;
- managing the maturities and diversify secured and unsecured funding liabilities across markets, products and counterparties; and
- maintaining liabilities of appropriate term relative to asset base.

**c) Liquidity and funding risk management (Cont'd)**

The balances in the tables below will not agree directly with the balances in the statements of financial position as the tables incorporate, on an undiscounted basis, all cash flows relating to principal and future coupon payments. In addition, loan/financing and other credit-related commitments and financial guarantees and similar contracts are generally not recognised on the statement of financial position.

Cash flows payable in respect of customer accounts are primarily contractually repayable on demand or at short notice. However, in practice, short term deposit balances remain stable as inflows and outflows broadly match and a significant portion of loan/financing commitments expire without being drawn upon.

**i) Cash flows payable by the Group under financial liabilities by remaining contractual maturities**

| Group (RM'000) | On Demand | Due within 3 months | Due between 3 months to 12 months | Due between 1 and 5 years | Due after 5 years |
|---|---|---|---|---|---|
| **At 31 Dec 2014** | | | | | |
| ***Non-derivative liabilities*** | | | | | |
| Deposits from customers | **33,350,023** | **19,017,286** | **8,944,207** | **402,600** | **-** |
| Deposits and placements of banks and other financial institutions | **-** | **7,918,200** | **21,243** | **442,237** | **-** |
| Bills and acceptances payable | **426,346** | **-** | **-** | **-** | **-** |
| Other liabilities | **1,575,403** | **505,571** | **-** | **-** | **-** |
| Multi Currency Sukuk Programme | **-** | **9,963** | **29,888** | **1,112,817** | **-** |
| Subordinated liabilities | **-** | **15,160** | **45,478** | **691,915** | **1,105,566** |
| Loans and other credit-related commitments | **21,706,268** | **4,567,611** | **3,391,467** | **1,673,072** | **-** |
| Financial guarantees and similiar contracts | **1,681,155** | **1,756,809** | **1,403,095** | **2,337,476** | **695,976** |
| | **58,739,195** | **33,790,600** | **13,835,378** | **6,660,117** | **1,801,542** |
| ***Derivative liabilities*** | | | | | |
| Outflow | **-** | **(2,708)** | **(55,695)** | **(125,388)** | **-** |
| Inflow | **-** | **2,959** | **60,863** | **136,027** | **-** |
| | **-** | **251** | **5,168** | **10,639** | **-** |

| Group (RM'000) | On Demand | Due within 3 months | Due between 3 months to 12 months | Due between 1 and 5 years | Due after 5 years |
|---|---|---|---|---|---|
| **At 31 Dec 2013 (Restated)** | | | | | |
| ***Non-derivative liabilities*** | | | | | |
| Deposits from customers | 32,981,079 | 19,298,609 | 7,789,158 | 179,491 | - |
| Deposits and placements of banks and other financial institutions | 1,653,999 | 4,527,384 | 2,167,237 | 7,064 | 332 |
| Bills and acceptances payable | 902,329 | 4,266 | - | - | - |
| Other liabilities | 1,132,855 | 518,205 | - | - | - |
| Multi Currency Sukuk Programme | - | 4,688 | 14,063 | 551,563 | - |
| Subordinated liabilities | - | 11,750 | 35,250 | 655,375 | 753,112 |
| Loans and other credit-related commitments | 20,949,732 | 3,943,713 | 2,166,006 | 1,485,132 | - |
| Financial guarantees and similiar contracts | 2,128,474 | 775,975 | 1,118,872 | 2,378,202 | 488,022 |
| | 59,748,468 | 29,084,590 | 13,290,586 | 5,256,827 | 1,241,466 |
| ***Derivative liabilities*** | | | | | |
| Outflow | - | (1,808) | (59,540) | (161,845) | - |
| Inflow | - | 2,203 | 57,949 | 166,327 | - |
| | - | 395 | (1,591) | 4,482 | - |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 4 Financial risk management (Cont'd)

### c) Liquidity and funding risk management (Cont'd)

**ii) Cash flows payable by the Bank under financial liabilities by remaining contractual maturities (Cont'd)**

| Bank (RM'000) | On Demand | Due within 3 months | Due between 3 months to 12 months | Due between 1 and 5 years | Due after 5 years |
|---|---|---|---|---|---|
| **At 31 Dec 2014** | | | | | |
| ***Non-derivative liabilities*** | | | | | |
| Deposits from customers | **28,456,404** | **14,332,026** | **7,517,440** | **356,779** | **-** |
| Deposits and placements of banks and other financial institutions | **-** | **7,892,818** | **1,983** | **389,614** | **-** |
| Bills and acceptances payable | **400,637** | **-** | **-** | **-** | **-** |
| Other liabilities | **1,605,451** | **469,047** | **-** | **-** | **-** |
| Multi Currency Sukuk Programme | **-** | **-** | **-** | **-** | **-** |
| Subordinated liabilities | **-** | **13,455** | **40,364** | **664,643** | **1,074,885** |
| Loans and other credit-related commitments | **18,674,853** | **3,896,173** | **2,977,339** | **716,258** | **-** |
| Financial guarantees and similiar contracts | **1,604,668** | **1,606,452** | **676,481** | **1,944,116** | **695,284** |
| | **50,742,013** | **28,209,971** | **11,213,607** | **4,071,410** | **1,770,169** |
| ***Derivative liabilities*** | | | | | |
| Outflow | **-** | **(2,011)** | **(46,645)** | **(100,733)** | **-** |
| Inflow | **-** | **2,261** | **51,863** | **111,789** | **-** |
| | **-** | **250** | **5,218** | **11,056** | **-** |

| Bank (RM'000) | On Demand | Due within 3 months | Due between 3 months to 12 months | Due between 1 and 5 years | Due after 5 years |
|---|---|---|---|---|---|
| **At 31 Dec 2013 (Restated)** | | | | | |
| ***Non-derivative liabilities*** | | | | | |
| Deposits from customers | 28,502,825 | 14,101,378 | 6,404,808 | 133,202 | - |
| Deposits and placements of banks and other financial institutions | 1,627,184 | 4,525,011 | 2,144,588 | 2,501 | 332 |
| Bills and acceptances payable | 891,357 | 4,266 | - | - | - |
| Other liabilities | 1,180,917 | 481,681 | - | - | - |
| Subordinated liabilities | - | 11,750 | 35,250 | 655,375 | 753,112 |
| Loans and other credit-related commitments | 18,714,855 | 3,352,305 | 2,016,528 | 717,060 | - |
| Financial guarantees and similiar contracts | 1,957,127 | 708,251 | 581,766 | 2,006,637 | 488,022 |
| | 52,874,265 | 23,184,642 | 11,182,940 | 3,514,775 | 1,241,466 |
| ***Derivative liabilities*** | | | | | |
| Outflow | - | (1,808) | (56,872) | (150,484) | - |
| Inflow | - | 2,203 | 55,688 | 156,695 | - |
| | - | 395 | (1,184) | 6,211 | - |

**d) Market risk management**

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

The objective of the Group and 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.

There were no significant changes to our policies and practices for the management of market risk in 2014.

The Group and the Bank separate exposures to market risk into either trading or non-trading portfolios. Trading portfolios include those positions arising from market making, proprietary position taking and other marked-to-market positions so designated. Non-trading portfolios primarily arise from the interest/profit rate management of the Group and the Bank's retail and commercial banking assets and liabilities, and financial investments designated as available-for-sale.

The management of market risk is principally undertaken using risk limit mandates approved by HSBC's Regional Wholesale and Global Market Risk Management (WMR), 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 Global Markets 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 Group and the Bank have an independent product control function that is responsible for measuring market risk exposures in accordance with the policies defined by WMR. Positions are monitored daily and excesses against the prescribed limits are reported immediately to local senior management and WMR. The nature of the hedging and risk mitigation strategies corresponds to the market instruments available. These strategies range from the use of traditional market instruments, such as interest rate swaps / profit rate swaps, to more sophisticated hedging strategies to address a combination of risk factors arising at portfolio level.

Market risk in the trading portfolio is monitored and controlled at both portfolio and position levels using a complementary set of techniques such as sensitivity analysis and value at risk, together with stress 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.

**i) Value at risk ('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 given level of confidence. The VAR models used by the Group and the Bank are based predominantly on historical simulation. These models derive plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates such as interest rates and foreign exchange rates. The models also incorporate the effect of option features on the underlying exposures. The historical simulation models used by the Group and the Bank incorporate the following features:

- potential market movements are calculated with reference to data from the past two years;
- historical market rates and prices are calculated with reference to foreign exchange rates and commodity prices, interest rates, equity prices and the associated volatilities; and
- VAR is calculated to a 99 per cent confidence level and for a one-day holding period. The nature of the VAR models means that an increase in observed market volatility will lead to an increase in VAR without any changes in the underlying positions. The Group and the Bank routinely validates the accuracy of its VAR models by back-testing the actual daily profit and loss results, adjusted to remove non-modelled items such as fees and commissions, against the corresponding VAR numbers. Statistically, the Group and the Bank would expect to see losses in excess of VAR only 1 per cent 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.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

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

**d) Market risk management (Cont'd)**

**i) Value at risk ('VAR') (Cont'd)**

A summary of the VAR position of the Bank and its fully owned subsidiary, HSBC Amanah Malaysia Berhad's trading portfolios at the reporting date is as follows:-

| HSBC Bank Malaysia Bhd (RM'000) | **At 31 Dec 2014** | **Average** | **Maximum** | **Minimum** |
|---|---|---|---|---|
| Foreign currency risk | **399** | **652** | **4,038** | **187** |
| Interest rate risk | **2,140** | **5,661** | **14,138** | **2,080** |
| Credit spread risk | **118** | **487** | **1,177** | **94** |
| Overall | **1,836** | **5,673** | **14,218** | **1,836** |
| | At 31 Dec 2013 | Average | Maximum | Minimum |
| Foreign currency risk | 501 | 852 | 2,272 | 280 |
| Interest rate risk | 4,654 | 5,496 | 8,247 | 2,933 |
| Credit spread risk | 770 | 1,015 | 1,615 | 284 |
| Overall | 4,300 | 5,534 | 8,503 | 2,813 |

| HSBC Amanah Malaysia Berhad (RM'000) | **At 31 Dec 2014** | **Average** | **Maximum** | **Minimum** |
|---|---|---|---|---|
| Foreign currency risk | **74** | **56** | **187** | **7** |
| Profit rate risk | **34** | **39** | **108** | **18** |
| Credit spread risk | **-** | **-** | **-** | **-** |
| Overall | **60** | **68** | **203** | **22** |
| | At 31 Dec 2013 | Average | Maximum | Minimum |
| Foreign currency risk | 130 | 65 | 279 | 7 |
| Profit rate risk | 84 | 141 | 336 | 84 |
| Credit spread risk | - | - | - | - |
| Overall | 176 | 147 | 328 | 89 |

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; and
- VAR is unlikely to reflect loss potential on exposures that only arise under significant market movements.

## 4 Financial risk management (Cont'd)

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

#### i) Value at risk ('VAR') (Cont'd)

The Group and the Bank recognise 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 half-yearly basis based on Bank Negara Malaysia's parameters to determine the impact of changes in interest /profit rates, exchange rates and other main economic indicators on the Group and the Bank's profitability, capital adequacy and liquidity. The stress-testing provides the Risk Committee with an assessment of the financial impact of identified extreme events on the market risk exposures of the Group and the Bank.

Sensitivity measures are used to monitor the market risk positions within each risk type, for example, the present value of a basis point movement in interest / profit rates, for interest / profit rate risk. Sensitivity limits are set for portfolios, products and risk types, with the depth of the market being one of the principal factors in determining the level of limits set.

Derivative financial instruments (principally interest/profit rate swaps) are used for hedging purposes in the management of asset and liability portfolios and structured positions. This enables the Group and 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.

#### ii) Exposure to interest/profit rate risk – non trading portfolios

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/profit 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/profit rate risk of the products and hence are subject to scrutiny from ALCO, the regional WMR. The net exposure is monitored against the limits granted by regional WMR for the respective portfolios and, depending on the view on future market movement, economically hedged with the use of financial instruments within agreed limits.

Interest/profit rate risk in the banking book or Rate of Return risk in the Banking book (IRR/RORBB) is defined as the exposure of the non-trading products of the Group and the Bank to interest/profit rates. Non-trading portfolios are subject to prospective interest/profit rate movements which could reduce future net interest/finance income. Non-trading portfolios include positions that arise from the interest/profit rate management of the Group and the Bank's retail and commercial banking assets and liabilities, and financial investments designated as available for sale. IRR/RORBB arises principally from mismatches between future yields on assets and their funding costs, as a result of interest/profit rate changes. Analysis of this risk is complicated by having to make assumptions within certain product areas such as the incidence of loan prepayments, and from behavioural assumptions regarding the economic duration of liabilities which are contractually repayable on demand such as current accounts.

The Group and the Bank manage market risk in non-trading portfolios by monitoring the sensitivity of projected net interest/finance income under varying interest/profit rate scenarios (simulation modeling). For simulation modeling, a combination of standard scenarios and non-standard scenarios relevant to the local market are used.

The standard scenarios monitored monthly include a 100 basis points parallel fall or rise in interest/profit rates and a 25 basis points fall or rise in interest/profit rates at the beginning of each quarter for the next 12 months.

The scenarios assume no management action. Hence, they do not incorporate actions that would be taken by the business units to mitigate the impact of the interest/profit rate risk. In reality, the business units would proactively seek to change the interest/profit rate profile to minimise losses and to optimise net revenues. Other simplifying assumptions are made, including that all positions run to maturity.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

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

**d) Market risk management (Cont'd)**

The interest/profit rate sensitivities set out in the table below are illustrative only and are based on simplified scenarios.

**iii) Sensitivity of projected Net Interest/Finance Income**

| Change in projected net interest/finance income in next 12 months arising from a shift in interest/profit rates of: | Group | |
|---|---|---|
| | **31-Dec-14 RM'000** | 31-Dec-13 RM'000 |
| +100 basis points parallel shift in yield curves | **300,849** | 269,486 |
| -100 basis points parallel shift in yield curves | **(281,484)** | (255,496) |
| +25 basis points at the beginning of each quarter | **195,272** | 175,741 |
| -25 basis points at the beginning of each quarter | **(195,870)** | (173,386) |

| Change in projected net interest income in next 12 months arising from a shift in interest rates of: | Bank | |
|---|---|---|
| | **31-Dec-14 RM'000** | 31-Dec-13 RM'000 |
| +100 basis points parallel shift in yield curves | **283,911** | 231,025 |
| -100 basis points parallel shift in yield curves | **(267,416)** | (219,728) |
| +25 basis points at the beginning of each quarter | **182,234** | 148,488 |
| -25 basis points at the beginning of each quarter | **(183,055)** | (147,187) |

Sensitivity of reported reserves in "other comprehensive income" to interest/profit rate movements are monitored on a monthly basis by assessing the expected reduction in valuation of available-for-sale portfolios and cash flow hedges to parallel movements of plus or minus 100 basis points in all yield curves.

**iii) Sensitivity of reported reserves in "other comprehensive income" to interest/profit rate movements**

| Change in projected net interest/finance income in next 12 months arising from a shift in interest/profit rates of: | Group | |
|---|---|---|
| | **31-Dec-14 RM'000** | 31-Dec-13 RM'000 |
| +100 basis points parallel shift in yield curves | **(123,280)** | (74,472) |
| -100 basis points parallel shift in yield curves | **123,280** | 74,472 |

| Change in projected net interest income in next 12 months arising from a shift in interest rates of: | Bank | |
|---|---|---|
| | **31-Dec-14 RM'000** | 31-Dec-13 RM'000 |
| +100 basis points parallel shift in yield curves | **(88,343)** | (47,719) |
| -100 basis points parallel shift in yield curves | **88,343** | 47,719 |

**Foreign exchange risk**

Foreign exchange risk arises as a result of movements in the relative value of currencies. In addition to VAR and stress testing, the Group and the Bank controls the foreign exchange risk within the trading portfolio by limiting the open exposure to individual currencies, and on an aggregate basis.

**Specific issuer risk**

Specific issuer (credit spread) risk arises from a change in the value of debt instruments due to a perceived change in the credit quality of the issuer or underlying assets. As well as VAR and stress testing, the Group and the Bank manages the exposure to credit spread movements within the trading portfolios through the use of limits referenced to the sensitivity of the present value of a basis point movement in credit spreads.

**Equity risk**

Equity risk arises from the holding of open positions, either long or short, in equities or equity based instruments, which create exposure to a change in the market price of the equities or underlying equity instruments. All equity derivative trades in the Group and the Bank are traded on a back-to-back basis with HSBC group offices and therefore have no open exposure.

**e) Operational risk management**

The Group Operational Risk function and the operational risk management framework ('ORMF') assist business management in discharging their responsibilities. The ORMF defines minimum standards and processes, and the governance structure for operational risk and internal control across the group.

Articulating our risk appetite for material operational risks helps business understand the level of risk our organisation is willing to accept. Monitoring operational risk exposure against risk appetite on a regular basis and implementing our risk acceptance process drives risk awareness in a more forward-looking manner. It assists management in determining whether further action is required.

In addition, an enhanced Top Risk Analysis process is being implemented across the Group and the Bank to improve the quantification and management of material risks through scenario analysis.

The incidence of regulatory proceedings and other adversarial proceedings against financial service firms is increasing. Proposed changes relating to capital and liquidity requirements, remuneration and/or taxes could increase our cost of doing business, reducing future profitability. Various regulators and competition authorities around the world are also investigating and reviewing certain past submissions made by panel banks and the process for making submissions in connection with the setting of benchmark interest and foreign exchange rates. In response, we have undertaken a number of initiatives which seek to address the issues identified, including creating a global management structure, enhancing our governance and oversight, increasing our compliance function resource, emphasising HSBC Values and designing and implementing new global standards.

**Other featured operational risks**

- *Challenges to achieving our strategy in a downturn*: businesses and countries have prioritised strategy and annual operating plans to reflect current economic conditions amid increased geo-political risk. Performance against plan is monitored through a number of means including the use of risk consideration and performance reporting at all relevant management committees.
- *Fraud risks*: the threat of fraud perpetrated by or against our customers, especially in retail and commercial banking, may increase during adverse economic conditions. We have increased monitoring, root cause analysis and review of internal controls to enhance our defences against external attacks and reduce the level of loss in these areas. In addition, HSBC Group Security and Fraud Risk is working closely with the global businesses to continually assess these threats as they evolve and adapt our controls to mitigate these risks.
- *Level of change creating operational complexity*: the Risk function is engaged with business management in business transformation initiatives to ensure robust internal controls are maintained, including through participation in all relevant management committees. The HSBC Global Transactions Team has developed an enhanced risk management framework to be applied to the management of disposal risks.
- *Information security*: the security of our information and technology infrastructure is crucial for maintaining our banking applications and processes while protecting our customers and the HSBC brand. A failure of our defences against such attacks could result in financial loss, loss of customer data and other sensitive information which could undermine both our reputation and our ability to retain the trust of our customers.
- *People Risk*: attracting and retaining staff with appropriate skills and expertise across the markets in which we operate remains a challenge. Significant investment is made in training and management development initiatives to equip our staff for the business changes we face and for the implementation of global standards.

In operationalising the operational risk management framework, the Group and the Bank operates 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 the Internal Audit function, and by monitoring external operational risk events, which ensures that the Group and the Bank stay in line with best practice and takes account of lessons learned from publicised operational failures within the financial services industry.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

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

**e) Operational risk management (Cont'd)**

**Other featured operational risks (Cont'd)**

The Group and the Bank adhere to the HSBC Global Standard on operational risk. This standard explains how HSBC manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk vulnerabilities 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 Risk Management Committee, the Board Risk Committee and Audit Committee, as well as Regional Head of Operational Risk Management Asia Pacific; and
- risk mitigation, including insurance, is considered where this is cost-effective.

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

**f) Capital management**

The Group and the Bank's lead regulator, BNM sets and monitors capital requirements for the Group and the Bank as a whole. The Group is required to comply with the provisions of the Basel II framework in respect of regulatory capital. The Bank adopts the Standardised approach for Credit, Operational and Market Risk in its trading portfolios. Its fully owned subsidiary, HSBC Amanah Malaysia Berhad, adopts the Standardised approach for Credit and Market Risk in its trading portfolios, and Basic Indicator Approach for Operational Risk. Please refer to Note 37 to the financial statements for the Group and the Bank's regulatory capital position under Basel II at the reporting date.

The Group and the Bank's regulatory capital is analysed in two tiers:

- Tier 1 capital is divided into Common Equity Tier 1 (CET1) Capital and Additional Tier 1 Capital. CET1 Capital includes ordinary share capital, share premium, capital redemption reserves, retained earnings, statutory reserves and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. The Group and the Bank does not have any Additional Tier 1 Capital as at 31 December 2014.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances (excluding collective impairment allowances attributable to loans/financing classified as impaired), regulatory reserve, and the element of the fair value reserve relating to revaluation of property.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 5 Use of estimates and judgements

The results of the Group and the Bank are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its consolidated financial statements. The significant accounting policies used in the preparation of the consolidated financial statements are described in Note 3 to the financial statements.

The accounting policies that are deemed critical to the Group and the Bank's results and financial positions, in terms of the materiality of the items to which the policy is applied, and which involve a high degree of judgement including the use of assumptions and estimation, are discussed below.

### i) Impairment of loans, advances and financing

The Group and the Bank's accounting policy for losses arising from the impairment of customer loans, advances and financing is described in Note 3(m) to the financial statements. Loan/financing impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the reporting date.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

### ii) Fair value of financial instruments carried at fair value

The accounting policies which determine the classification of financial instruments and the use of assumptions and estimation in valuing them are described in Note 3(g)(vi) to the financial statements. The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, in cases where the Group and the Bank manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the Group and the Bank measures the fair value of the group of financial instruments on a net basis, but presents the underlying financial assets and liabilities separately in the financial statements, unless they satisfy the MFRS offsetting criteria as described in Note 3(g)(iv) to the financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following table sets out the financial instruments carried at fair value.

| | Group | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **2014** | **(RM'000)** | **(RM'000)** | **(RM'000)** | **(RM'000)** |
| Financial Assets Held-for-Trading (Note 8) | **706,635** | **2,240,447** | **-** | **2,947,082** |
| Financial Investments Available-for-Sale* (Note 9) | **7,545,872** | **9,540,709** | **-** | **17,086,581** |
| Derivative financial assets (Note 39) | **2,085** | **1,766,630** | **30,986** | **1,799,701** |
| | **8,254,592** | **13,547,786** | **30,986** | **21,833,364** |
| Trading liabilities** | **68,148** | **3,800,911** | **1,065,035** | **4,934,094** |
| Derivative financial liabilities (Note 39) | **2,529** | **1,587,821** | **16,025** | **1,606,375** |
| | **70,677** | **5,388,732** | **1,081,060** | **6,540,469** |
| **2013** | | | | |
| Financial Assets Held-for-Trading (Note 8) | 946,914 | 1,386,476 | - | 2,333,390 |
| Financial Investments Available-for-Sale* (Note 9) | 5,040,658 | 1,442,036 | - | 6,482,694 |
| Derivative financial assets (Note 39) | 2,612 | 1,237,349 | 80,183 | 1,320,144 |
| | 5,990,184 | 4,065,861 | 80,183 | 10,136,228 |
| Trading liabilities** | 98,764 | 3,319,868 | 1,390,073 | 4,808,705 |
| Derivative financial liabilities (Note 39) | 2,555 | 1,070,886 | 25,012 | 1,098,453 |
| | 101,319 | 4,390,754 | 1,415,085 | 5,907,158 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**5 Use of estimates and judgements (Cont'd)**

**ii) Fair value of financial instruments carried at fair value (Cont'd)**

** Excludes equity securities which are carried at cost due to the lack of quoted prices in an active market or /and the fair values of the investments cannot be reliably measured.*

*** Trading liabilities consist of structured investments, negotiable instruments of deposits classified as trading, net short position in securities and settlement accounts classified as held for trading. Structured investments and negotiable instruments of deposits form part of the balance reported under Note 19 (Deposits from customers) while short position in securities and settlement accounts classified as held for trading form part of the balance reported under Note 21 (Other Liabilities).*

| | Bank | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **2014** | **(RM'000)** | **(RM'000)** | **(RM'000)** | **(RM'000)** |
| Financial Assets Held-for-Trading (Note 8) | **686,580** | **2,240,447** | **-** | **2,927,027** |
| Financial Investments Available-for-Sale* (Note 9) | **6,124,231** | **6,827,027** | **-** | **12,951,258** |
| Derivative financial assets (Note 39) | **2,085** | **1,793,750** | **35,568** | **1,831,403** |
| | **6,812,896** | **10,861,224** | **35,568** | **17,709,688** |
| Trading liabilities** | **68,148** | **2,321,814** | **772,654** | **3,162,616** |
| Derivative financial liabilities (Note 39) | **2,529** | **1,613,186** | **18,587** | **1,634,302** |
| | **70,677** | **3,935,000** | **791,241** | **4,796,918** |
| **2013** | | | | |
| Financial Assets Held-for-Trading (Note 8) | 857,255 | 1,386,476 | - | 2,243,731 |
| Financial Investments Available-for-Sale* (Note 9) | 3,724,643 | 1,417,045 | - | 5,141,688 |
| Derivative financial assets (Note 39) | 2,603 | 1,320,033 | 90,689 | 1,413,325 |
| | 4,584,501 | 4,123,554 | 90,689 | 8,798,744 |
| Trading liabilities** | 98,764 | 1,722,024 | 1,189,755 | 3,010,543 |
| Derivative financial liabilities (Note 39) | 2,551 | 1,132,504 | 25,012 | 1,160,067 |
| | 101,315 | 2,854,528 | 1,214,767 | 4,170,610 |

** Excludes equity securities which are carried at cost due to the lack of quoted prices in an active market or /and the fair values of the investments cannot be reliably measured.*

*** Trading liabilities consist of structured investments, negotiable instruments of deposits classified as trading, net short position in securities and settlement accounts classified as held for trading. Structured investments and negotiable instruments of deposits form part of the balance reported under Note 19 (Deposits from customers) while short position in securities and settlement accounts classified as held for trading form part of the balance reported under Note 21 (Other Liabilities).*

Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period. Transfers from Level 1 to Level 2 reflect the reclassification of corporate debt securities that exhibit limited liquidity in the secondary market.

## 5 Use of estimates and judgements (Cont'd)

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

***Control framework***

Fair values are subject to a control framework designed to ensure that they are either determined, or validated, by a function independent of the risk-taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is used. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the Group and the Bank will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, *inter alia*:

- the extent to which prices may be expected to represent genuine traded or tradable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the balance sheet date; and
- the manner in which the data was sourced.

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

To this end, ultimate responsibility for the determination of fair values lies within the Finance function, which reports functionally to the HSBC Group Finance Director. Finance establishes the accounting policies and procedures governing valuation, and is responsible for ensuring that these comply with all relevant accounting standards.

***Determination of fair value***

Fair values are determined according to the following hierarchy:

(a) Level 1 – Valuation technique using quoted market price

Financial instruments with quoted prices for identical instruments in active markets that the Group and the Bank can access at the measurement date.

(b) Level 2 – Valuation technique using observable inputs

Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

(c) Level 3 – Valuation technique with significant unobservable inputs

Financial instruments valued using valuation techniques where one or more significant inputs are unobservable

The best evidence of fair value is a quoted price in an actively traded market. The fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities used. Where a financial instrument has a quoted price in an active market and it is part of a portfolio, the fair value of the total holding of financial instrument is calculated as the product of the number of units and quoted price and no block discounts are applied. In the event that the market for a financial instrument is not active, a valuation technique is used.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**5 Use of estimates and judgements (Cont'd)**

**ii) Fair value of financial instruments carried at fair value (Cont'd)**

***Determination of fair value of financial instruments carried at fair value (Cont'd)***

The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. The bid/offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which they would be willing to sell. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the instrument requires additional work during the valuation process.

***Valuation techniques***

Valuation techniques incorporate assumptions about factors that other market participants would use in their valuations. A range of valuation techniques is employed, dependent on the instrument type and available market data. More sophisticated valuation techniques are based upon discounted cash flow analysis, in which expected future cash flows are calculated and discounted to present value using a discounting curve. Prior to consideration of credit risk, the expected future cash flows may be known, as would be the case for the fixed leg of an interest/profit rate swap, or may be uncertain and require projection, as would be the case for the floating leg of an interest/profit rate swap. Projection utilises market forward curves, if available. In option models, the probability of different potential future outcomes must be considered. In addition, the values of some products are dependent on more than one market factor, and in these cases it will typically be necessary to consider how movements in one market factor may affect the other market factors. The model inputs necessary to perform such calculations include interest/profit rate yield curves, exchange rates, volatilities, correlations, prepayment and default rates.

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the measurement of fair value is more judgmental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit ('day 1 gain or loss') or greater than 5% of the instrument's carrying value is driven by unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used). All fair value adjustments are included within the levelling determination.

Structured notes issued and certain other hybrid instrument liabilities are included within trading liabilities and are measured at fair value. The credit spread applied to these instruments is derived from the spreads at which the Group and the Bank issue structured notes.

Gains and losses arising from changes in the credit spread of liabilities issued by the Group and the Bank reverse over the contractual life of the debt, provided that the debt is not repaid at a premium or a discount.

Changes in fair value are generally subject to a profit and loss analysis process. This process disaggregates changes in fair value into three high level categories; (i) portfolio changes, such as new transactions or maturing transactions, (ii) market movements, such as changes in foreign exchange rates or equity prices, and (iii) other, such as changes in fair value adjustments, discussed below.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**5 Use of estimates and judgements (Cont'd)**

**ii) Fair value of financial instruments carried at fair value (Cont'd)**

***Fair value adjustments***

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

Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound.

**Risk-related adjustments**

*(i) Bid-offer*

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

*(ii) Uncertainty*

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

*(iii) Credit valuation adjustment*

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

*(iv) Debit valuation adjustment*

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

**Model-related adjustments**

*(i) Model limitation*

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

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

Inception profit adjustments are adopted where the fair value estimated by a valuation model is based on one or more significant unobservable inputs. The accounting for inception profit adjustment is discussed in Note 3 (g)(vi)

## 5 Use of estimates and judgements (Cont'd)

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

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

The Group and the Bank calculate a separate credit valuation adjustment ('CVA') and debit valuation adjustment ('DVA') for each counterparty to which the Group and the Bank have exposure to.

The Group and the Bank calculate the CVA by applying the probability of default ('PD') of the counterparty, conditional on the non-default of the Group and Bank, to the expected positive exposure of the Group and the Bank to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, the Group and the Bank calculate the DVA by applying the PD of the Group and the Bank, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to Group and the Bank, and multiplying by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

For most products, the Group and the Bank use a simulation methodology to calculate the expected positive exposure to a counterparty. This incorporates a range of potential exposures across the portfolio of transactions with the counterparty over the life of the portfolio. The simulation methodology includes credit mitigants such as counterparty netting agreements and collateral agreements with the counterparty. A standard loss given default ('LGD') assumption of 60% is generally adopted for developed market exposures, and 75% for emerging market exposures. Alternative loss given default assumptions may be adopted where both the nature of the exposure and the available data support this.

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

With the exception of certain central clearing parties, the Group and the Bank include all third-party counterparties in the CVA and DVA calculations and does not net these adjustments across the Group and the Bank's entities. The Group and the Bank review and refine the CVA and DVA methodologies on an ongoing basis.

**Valuation of uncollateralised derivatives**

In line with evolving industry practice, Funding fair value adjustment (FFVA) reflects the funding of uncollateralised derivative exposure at rates other than overnight interest rate (OIS). As at 31 December 2014, the FFVA was +RM2.7m for the Group +RM3.7m for the Bank, which has a one-off impact on trading revenue. This is an area in which a full industry consensus has not yet emerged. The Group will continue to monitor industry evolution and refine the calculation methodology as necessary.

## 5 Use of estimates and judgements (Cont'd)

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

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

The following table provides a reconciliation of the movement between opening and closing balances of Level 3 financial instruments, measured at fair value using a valuation technique with significant unobservable inputs:

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Derivative financial assets** | **Derivative financial liabilities** | **Trading Liabilities** | Derivative financial assets | Derivative financial liabilities | Trading Liabilities |
| **Group (RM'000)** | | | | | | |
| Balance at 1 January | **80,183** | **25,012** | **1,390,073** | 32,278 | 10,029 | 1,561,993 |
| Total gains or losses: | | | | | | |
| -in profit or loss | **(11,791)^^** | **(6,796)^^** | **7,595^** | 53,816^^ | 17,628^ | (56,641)^^ |
| Issues | **-** | **-** | **223,545** | - | - | 379,701 |
| Settlements | **(851)** | **(69)** | **(405,639)** | (3,166) | (1,462) | (416,626) |
| Transfers into Level 3 | **-** | **-** | **-** | 1 | - | 29,003 |
| Transfer out of Level 3 | **(36,556)** | **(2,122)** | **(150,539)** | (2,746) | (1,183) | (107,357) |
| Balance at 31 December | **30,985** | **16,025** | **1,065,035** | 80,183 | 25,012 | 1,390,073 |

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Derivative financial assets** | **Derivative financial liabilities** | **Trading Liabilities** | Derivative financial assets | Derivative financial liabilities | Trading Liabilities |
| **Bank (RM'000)** | | | | | | |
| Balance at 1 January | **90,689** | **25,012** | **1,189,755** | 34,736 | 12,519 | 1,316,816 |
| Total gains or losses: | | | | | | |
| -in profit or loss | **(17,714)^^** | **(4,229)^^** | **(801)^^** | 63,047^^ | 15,139^ | (54,448)^^ |
| Issues | **-** | **-** | **4,833** | - | - | 257,436 |
| Settlements | **(851)** | **(69)** | **(275,107)** | (3,166) | (1,463) | (280,537) |
| Transfers into Level 3 | **-** | **-** | **-** | 1 | - | 29,003 |
| Transfer out of Level 3 | **(36,556)** | **(2,127)** | **(146,026)** | (3,929) | (1,183) | (78,515) |
| Balance at 31 December | **35,568** | **18,587** | **772,654** | 90,689 | 25,012 | 1,189,755 |

^ Denotes losses in the Profit or Loss
^^ Denotes gains in the Profit or Loss
# OCI = Other Comprehensive Income

Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

For derivative financial assets/liabilities, transfers out of level 3 were due to the maturity of the derivatives or as a result of early termination.

For trading liabilities, transfers into level 3 were due to new deals with unobservable volatilities. Transfers out of level 3 resulted from maturity or early termination of the instruments.

For trading liabilities, realised and unrealised gains and losses are presented in profit or loss under 'Net trading income'.

**5 Use of estimates and judgements (Cont'd)**

**ii) Fair value of financial instruments carried at fair value (Cont'd)**

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

Total gains or losses included in profit or loss for the financial year in the above tables are presented in the statements of comprehensive income as follows:-

| **2014**<br>**Group (RM'000)** | **Derivative financial assets** | **Derivative financial liabilities** | **Trading liabilities** |
|---|---|---|---|
| Total gains or losses included in profit or loss for the year ended: | | | |
| -Net trading income | **(36,810)^** | **(22,452)^^** | **(14,709)^^** |
| Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the reporting year | | | |
| -Net trading income | **25,019^^** | **15,656^** | **22,304^** |

| 2013<br>Group (RM'000) | Derivative financial assets | Derivative financial liabilities | Trading liabilities |
|---|---|---|---|
| Total gains or losses included in profit or loss for the year ended: | | | |
| -Net trading income | (792)^ | 3,495^ | (73,091)^^ |
| Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the reporting year | | | |
| -Net trading income | 54,608^^ | 14,133^ | 16,450^ |

| **2014**<br>**Bank (RM'000)** | **Derivative financial assets** | **Derivative financial liabilities** | **Trading liabilities** |
|---|---|---|---|
| Total gains or losses included in profit or loss for the year ended: | | | |
| -Net trading income | **(47,149)^** | **(22,452)^^** | **(20,655)^^** |
| Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the reporting year | | | |
| -Net trading income | **29,435^^** | **18,223^** | **19,854^** |

| 2013<br>Bank (RM'000) | Derivative financial assets | Derivative financial liabilities | Trading liabilities |
|---|---|---|---|
| Total gains or losses included in profit or loss for the year ended: | | | |
| -Net trading income | (470)^ | 944^ | (73,971)^^ |
| Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the reporting year | | | |
| -Net trading income | 63,517^^ | 14,195^ | 19,523^ |

^ Denotes losses in the Profit or Loss
^^ Denotes gains in the Profit or Loss

## 5 Use of estimates and judgements (Cont'd)

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

***Quantitative information about significant unobservable inputs in Level 3 valuations***

Level 3 fair values are estimated using unobservable inputs for the financial assets and liabilities. The following table shows the valuation techniques used in the determination of fair values within Level 3 at Group basis for the current year, as well as the key unobservable inputs used in the valuation models.

| Type of Financial Instrument | Valuation Technique | Key unobservable inputs | Range of estimates for unobservable input |
|---|---|---|---|
| Foreign currency options based derivative financial assets/liabilities | Option model | Volatility of foreign currency rates | 4.37%-14.73% (2013: 3.97% - 19.33%) |
| Cross currency swap based derivative financial assets/liabilities | Discounted cash flow model | Interest rate basis. USD/MYR cross currency swap curve is unobservable for tenors above 7 years. | NIL (2013: 4.05%*) |
| Trading liabilities | Option model | Interest rate volatility | NIL (2013: 12.50% - 18.80%) |
| | | Foreign currency volatility | 3.63%-19.14% (2013: 1.87% - 17.88%) |
| | | Long term equity volatility | 12.04%-29.49% (2013: 7.38% - 66.86%) |
| | | Fund volatility | NIL (2013: 7.21% - 72.54%) |

* *Upper and lower ranges are the same*

***Key unobservable inputs to Level 3 financial instruments***

**Volatility**

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

Volatility varies by underlying reference market price, and by strike and maturity of the option. Volatility also varies over time. Certain volatilities, typically those of a longer-dated nature, are unobservable. The unobservable volatility is then estimated from observable data. For example, longer-dated volatilities may be extrapolated from shorter-dated volatilities.

The range of unobservable volatilities quoted in the table reflects the wide variation in volatility inputs by reference market price. For example, foreign exchange volatilities for a pegged currency may be very low, whereas for non-managed currencies the foreign exchange volatility may be higher. As a further example, volatilities for deep-in-the money or deep-out-of-the-money equity options may be significantly higher than at-the-money options. For any single unobservable volatility, the uncertainty in the volatility determination is significantly less than the range quoted above.

## 5 Use of estimates and judgements (Cont'd)

### *ii)* Fair value of financial instruments carried at fair (Cont'd)

***Key unobservable inputs to Level 3 financial instruments***

**Interest rate/Cross currency basis**

Cross currency basis rates represent the difference in interest rates between different currencies. Cross currency basis rates are used to revalue cross currency swaps and may not be observable in more illiquid markets.

***Sensitivity of fair values to reasonably possible alternative assumptions***

As discussed above, the fair values of financial instruments are, in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair values to reasonably possible alternative assumptions:

| | **2014 Effect on profit or loss** | | 2013 Effect on profit or loss | |
|---|---|---|---|---|
| | **Favourable changes** | **Unfavourable changes** | Favourable changes | Unfavourable changes |
| **Group (RM'000)** | | | | |
| Derivative financial assets | **3,397** | **(3,397)** | 6,686 | (6,686) |
| Derivative financial liabilities | **950** | **(950)** | 4,737 | (4,737) |
| Trading liabilities | **245** | **(245)** | 738 | (738) |
| | **4,592** | **(4,592)** | 12,161 | (12,161) |

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

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

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 6 Cash and Short Term Funds

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Cash and balances with banks and other financial institutions | **1,354,154** | 1,625,703 | **1,183,220** | 1,482,497 |
| Money at call and interbank placements maturing within one month | **6,484,903** | 13,828,804 | **6,894,740** | 11,076,289 |
| | **7,839,057** | 15,454,507 | **8,077,960** | 12,558,786 |

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

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Licensed banks | **1,109,649** | 212,790 | **2,780,622** | 1,568,825 |
| Bank Negara Malaysia | **2,000,000** | 3,500,000 | **2,000,000** | 3,500,000 |
| Other financial institutions | **-** | 298,550 | **-** | 134,600 |
| | **3,109,649** | 4,011,340 | **4,780,622** | 5,203,425 |

## 8 Financial Assets Held-for-Trading

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| **At fair value** | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Money market instruments: | | | | |
| Malaysian Government treasury bills | **96,088** | 56,941 | **96,088** | 56,941 |
| Bank Negara Malaysia bills and notes | **569,163** | 1,201,505 | **569,163** | 1,201,505 |
| Bank Negara Malaysia Islamic bills and notes | **1,451,961** | 149,605 | **1,451,961** | 149,605 |
| Malaysian Government securities | **479,451** | 482,409 | **479,451** | 482,409 |
| Malaysian Government Islamic bonds | **194,577** | 243,211 | **174,522** | 153,552 |
| Islamic fixed rate bonds | **8,827** | 8,915 | **8,827** | 8,915 |
| Cagamas bonds and notes | **7,283** | 7,393 | **7,283** | 7,393 |
| | **2,807,350** | 2,149,979 | **2,787,295** | 2,060,320 |
| Unquoted securities: | | | | |
| Private and Islamic debt securities | **139,732** | 183,411 | **139,732** | 183,411 |
| (including commercial paper) | **2,947,082** | 2,333,390 | **2,927,027** | 2,243,731 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 8 Financial Assets Held-for-Trading (Cont'd)

Credit quality of financial assets held-for-trading based on the ratings of Standard & Poor's on the counterparties.

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| Money market instruments: | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Malaysian Government treasury bills | | | | |
| *A+ to A-* | **96,088** | 56,941 | **96,088** | 56,941 |
| Bank Negara Malaysia bills and notes | | | | |
| *A+ to A-* | **569,163** | 1,201,505 | **569,163** | 1,201,505 |
| Bank Negara Malaysia Islamic bills | | | | |
| *A+ to A-* | **1,451,961** | 149,605 | **1,451,961** | 149,605 |
| Malaysian Government securities | | | | |
| *A+ to A-* | **479,451** | 482,409 | **479,451** | 482,409 |
| Malaysian Government Islamic bonds | | | | |
| *A+ to A-* | **194,577** | 243,211 | **174,522** | 153,552 |
| Islamic fixed rate bonds | | | | |
| *A+ to A-* | **8,827** | 8,915 | **8,827** | 8,915 |
| Cagamas bonds and notes | | | | |
| *Unrated* | **7,283** | 7,393 | **7,283** | 7,393 |
| Unquoted securities: | | | | |
| Private debt securities | | | | |
| (including commercial paper) | | | | |
| AA+ to AA- | **-** | 16,327 | **-** | 16,327 |
| A+ to A- | **2,431** | - | **2,431** | - |
| BBB+ to BBB- | **25,327** | 19,415 | **25,327** | 19,415 |
| Unrated | **111,974** | 147,669 | **111,974** | 147,669 |
| | **2,947,082** | 2,333,390 | **2,927,027** | 2,243,731 |

All the financial assets held-for-trading as disclosed above are not pledged to any counterparties.

## 9 Financial Investments Available-for-Sale

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| **At fair value** | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Money market instruments: | | | | |
| Bank Negara Malaysia bills and notes | **2,237,917** | - | **2,237,917** | - |
| Bank Negara Malaysia Islamic bills | **5,981,313** | - | **3,496,504** | - |
| Malaysian Government securities | **4,336,360** | 1,482,060 | **4,336,360** | 1,482,060 |
| Malaysian Government Islamic bonds | **3,129,628** | 3,353,160 | **1,707,988** | 2,037,145 |
| Cagamas bonds and notes | **229,750** | 204,966 | **229,750** | 204,966 |
| Negotiable instruments of deposit | **808,944** | 584,868 | **580,070** | 559,877 |
| Bankers' acceptance and Islamic accepted bills | **362,198** | 857,169 | **362,198** | 857,169 |
| | **17,086,110** | 6,482,223 | **12,950,787** | 5,141,217 |
| Unquoted securities: | | | | |
| Shares* | **16,908** | 16,907 | **16,908** | 16,907 |
| Private debt securities | **471** | 471 | **471** | 471 |
| (including commercial paper) | **17,379** | 17,378 | **17,379** | 17,378 |
| | **17,103,489** | 6,499,601 | **12,968,166** | 5,158,595 |

*Stated at cost due to the lack of quoted prices in an active market or / and the fair values of the investments cannot be reliably measured.

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

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Maturing within one year | **12,229,175** | 3,001,459 | **9,415,649** | 2,427,608 |
| More than one year to three years | **3,847,847** | 1,367,339 | **3,164,356** | 1,062,631 |
| More than three years to five years | **803,859** | 1,951,855 | **165,553** | 1,509,191 |
| Over five years | **205,229** | 161,570 | **205,229** | 141,787 |
| | **17,086,110** | 6,482,223 | **12,950,787** | 5,141,217 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**10 Loans, Advances and Financing**

**(i) By type**

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| **At amortised cost** | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Overdrafts | **1,145,597** | 1,369,460 | **1,052,389** | 1,279,184 |
| Term loans/ financing: | | | | |
| Housing loans/ financing | **17,524,631** | 16,042,710 | **14,215,572** | 13,382,715 |
| Syndicated term loans/ financing | **-** | 45,077 | **-** | 45,077 |
| Factoring receivables | **202,751** | 160,206 | **202,751** | 160,206 |
| Hire purchase receivables | **234,709** | 252,743 | **179** | 183 |
| Lease receivables | **5,373** | 2,442 | **-** | - |
| Other term loans/ financing^ | **12,423,345** | 13,014,906 | **7,533,131** | 8,155,998 |
| Bills receivable | **2,311,721** | 3,499,558 | **2,311,721** | 3,499,558 |
| Trust receipts | **2,051,102** | 1,704,541 | **1,692,511** | 1,649,502 |
| Claims on customers under acceptance credits | **2,679,153** | 2,640,571 | **2,059,895** | 1,979,888 |
| Staff loans/ financing | **311,104** | 311,218 | **263,215** | 264,703 |
| Credit/ charge cards | **2,761,988** | 2,849,038 | **2,262,168** | 2,378,204 |
| Revolving credit | **4,226,563** | 3,459,069 | **3,608,324** | 3,220,720 |
| Other loans/ financing | **5,240** | 8,793 | **5,240** | 8,793 |
| Gross loans, advances and financing | **45,883,277** | 45,360,332 | **35,207,096** | 36,024,731 |
| Less: Allowances for impaired loans, advances and financing | | | | |
| - Collectively assessed | **(388,060)** | (382,316) | **(263,243)** | (263,026) |
| - Individually assessed | **(234,520)** | (318,112) | **(190,699)** | (276,975) |
| Total net loans, advances and financing | **45,260,697** | 44,659,904 | **34,753,154** | 35,484,730 |

^ Included in the loans, advances and financing of the Bank at 31 Dec 2014 is a Restricted Profit Sharing Investment Account ("RPSIA") balance amounting to RM415.74m (Dec 2013: RM629.76m). This amount is residing under other term loans/financing.

The RPSIA arrangement is with the Bank's fully owned subsidiary, HSBC Amanah Malaysia Berhad ("HBMS"), and the contract is based on the Mudharabah principle where the Bank (as the investor) solely provides capital, whilst the assets are managed by HBMS (as the agent). The profits of the underlying assets are shared based on pre-agreed ratios, whilst risks on the financing are borne by the Bank. Hence, the underlying assets and allowances for impairment arising thereon, if any, are recognised and accounted for by the Bank. The recognition and derecognition treatment is in accordance to Note 3(g) on financial instruments in the audited financial statements of the Group and Bank for the financial year ended 31 December 2014.

The accounts under the RPSIA are classified as "Assets Under Management" in the financial statements of HBMS.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**10 Loans, Advances and Financing (Cont'd)**

**(ii) By type of customer**

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Domestic non-bank financial institutions | **441,157** | 400,323 | **48,218** | 71,300 |
| Domestic business enterprises: | | | | |
| Small medium enterprises | **8,792,820** | 8,487,088 | **6,834,808** | 6,773,868 |
| Others | **10,401,256** | 10,293,570 | **8,185,015** | 8,026,000 |
| Government and statutory bodies | **15,898** | 19,190 | **-** | - |
| Individuals | **21,475,960** | 21,096,135 | **16,544,176** | 16,596,000 |
| Other domestic entities | **7,569** | 7,803 | **5,912** | 6,081 |
| Foreign entities | **4,748,617** | 5,056,223 | **3,588,967** | 4,551,482 |
| | **45,883,277** | 45,360,332 | **35,207,096** | 36,024,731 |

**(iii) By residual contractual maturity**

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Maturity within one year | **18,835,209** | 19,491,559 | **14,296,962** | 15,669,765 |
| More than one year to three years | **2,462,824** | 2,342,115 | **2,060,725** | 1,770,767 |
| More than three years to five years | **2,575,614** | 2,316,503 | **1,702,259** | 1,650,358 |
| More than five years | **22,009,630** | 21,210,155 | **17,147,150** | 16,933,841 |
| | **45,883,277** | 45,360,332 | **35,207,096** | 36,024,731 |

**(iv) By interest/ profit rate sensitivity**

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Fixed rate: | | | | |
| Housing loans/ financing | **128,471** | 143,971 | **121,524** | 134,983 |
| Hire purchase receivables | **234,709** | 252,743 | **179** | 183 |
| Other fixed rate loans/ financing | **4,060,557** | 3,868,536 | **2,149,926** | 2,061,327 |
| Variable rate: | | | | |
| BLR/BFR plus | **34,467,990** | 34,785,081 | **27,064,976** | 28,229,313 |
| Cost-plus | **4,229,562** | 3,460,963 | **3,608,323** | 3,220,721 |
| Other variable rates | **2,761,988** | 2,849,038 | **2,262,168** | 2,378,204 |
| | **45,883,277** | 45,360,332 | **35,207,096** | 36,024,731 |

**(v) By sector**

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Agricultural, hunting, forestry and fishing | **1,059,841** | 1,633,395 | **793,502** | 1,266,036 |
| Mining and quarrying | **426,246** | 452,303 | **258,451** | 348,615 |
| Manufacturing | **6,944,964** | 6,365,423 | **5,711,852** | 5,246,909 |
| Electricity, gas and water | **85,730** | 124,127 | **9,540** | 33,559 |
| Construction | **2,329,628** | 2,509,216 | **1,627,031** | 1,844,232 |
| Real estate | **1,698,471** | 1,776,310 | **1,460,445** | 1,521,834 |
| Wholesale & retail trade and restaurants & hotels | **3,154,948** | 2,773,077 | **2,361,583** | 2,115,250 |
| Transport, storage and communication | **351,263** | 388,873 | **137,821** | 114,614 |
| Finance, insurance and business services | **3,149,171** | 2,782,322 | **2,460,050** | 2,206,259 |
| Household-retail | **24,441,387** | 23,530,114 | **18,913,944** | 18,530,442 |
| Others | **2,241,628** | 3,025,172 | **1,472,877** | 2,796,981 |
| | **45,883,277** | 45,360,332 | **35,207,096** | 36,024,731 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**10 Loans, Advances and Financing (Cont'd)**

**(vi) By purpose**

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Purchase of property: | | | | |
| Residential | **17,517,122** | 16,182,395 | **14,485,372** | 13,673,133 |
| Non residential | **1,183,472** | 1,396,926 | **857,020** | 1,106,459 |
| Purchase of securities | **7,714** | 8,279 | **7,714** | 8,279 |
| Purchase of transport vehicles | **42,309** | 38,328 | **39,950** | 36,794 |
| Purchase of fixed assets excluding land & building | **12,716** | 20,199 | **-** | **-** |
| Consumption credit | **6,249,334** | 6,643,061 | **4,008,147** | 4,371,941 |
| Construction | **2,329,628** | 2,509,216 | **1,627,031** | 1,844,232 |
| Working capital | **16,729,223** | 15,909,437 | **12,951,649** | 12,357,518 |
| Other purpose | **1,811,759** | 2,652,491 | **1,230,213** | 2,626,375 |
| | **45,883,277** | 45,360,332 | **35,207,096** | 36,024,731 |

**(vii) By geographical distribution**

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Northern Region | **7,516,532** | 7,291,747 | **6,147,695** | 5,888,394 |
| Southern Region | **6,363,471** | 6,376,203 | **4,833,934** | 4,962,327 |
| Central Region | **28,340,052** | 27,029,963 | **21,044,201** | 21,033,874 |
| Eastern Region | **3,663,222** | 4,662,419 | **3,181,266** | 4,140,136 |
| | **45,883,277** | 45,360,332 | **35,207,096** | 36,024,731 |

The Northern region consists of the states of Perlis, Kedah, Penang, Perak, Pahang, Kelantan and Terengganu.
The Southern region consists of the states of Johor, Malacca and Negeri Sembilan.
The Central region consists of the state of Selangor and the Federal Territory of Kuala Lumpur.
The Eastern region consists of the states of Sabah, Sarawak and the Federal Territory of Labuan.

Concentration by location for loans, advances and financing is based on the location of the borrower.

**11 Impaired Loans, Advances and Financing**

**(i) Movements in impaired loans, advances and financing**

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| At beginning of year | **792,365** | 778,846 | **625,459** | 649,428 |
| Classified as impaired during the year | **1,042,144** | 1,054,807 | **776,210** | 793,055 |
| Reclassified as performing | **(556,075)** | (510,999) | **(423,343)** | (425,654) |
| Amount recovered | **(374,863)** | (311,818) | **(310,591)** | (264,503) |
| Amount written off | **(289,199)** | (314,999) | **(191,843)** | (195,002) |
| Other movements | **73,873** | 96,528 | **50,126** | 68,135 |
| At end of year | **688,245** | 792,365 | **526,018** | 625,459 |
| Less: Individual allowance for impairment | **(234,520)** | (318,112) | **(190,699)** | (276,975) |
| Collective allowance for impairment (impaired portion) | **(82,829)** | (86,829) | **(41,701)** | (43,189) |
| Net impaired loans, advances and financing | **370,896** | 387,424 | **293,618** | 305,295 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**11 Impaired Loans, Advances and Financing (Cont'd)**

**(ii) Movements in allowances for impaired loans, advances and financing**

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| **Collective allowance for impairment** | **RM'000** | RM'000 | **RM'000** | RM'000 |
| At beginning of year | **382,316** | 401,441 | **263,026** | 256,588 |
| Made during the year | **281,197** | 367,233 | **162,585** | 209,273 |
| Amount released | **(69,701)** | (136,546) | **(43,828)** | (69,637) |
| Amount written off | **(206,018)** | (249,858) | **(119,680)** | (134,005) |
| Other movements | **266** | 46 | **1,140** | 807 |
| At end of year | **388,060** | 382,316 | **263,243** | 263,026 |

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| **Individual allowance for impairment** | **RM'000** | RM'000 | **RM'000** | RM'000 |
| | | Restated | | Restated |
| At beginning of year | **318,112** | 304,981 | **276,975** | 274,602 |
| Made during the year | **122,431** | 164,223 | **88,788** | 136,638 |
| Amount released | **(178,266)** | (116,104) | **(146,527)** | (94,120) |
| Amount written off | **(60,502)** | (56,778) | **(52,354)** | (52,073) |
| Discount unwind | **(2,173)** | (1,593) | **(1,713)** | (1,164) |
| Other movements | **34,918** | 23,383 | **25,530** | 13,092 |
| At end of year | **234,520** | 318,112 | **190,699** | 276,975 |

**(iii) By sector**

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Agricultural, hunting, forestry and fishing | **964** | 471 | **964** | 471 |
| Mining and quarrying | **-** | 163 | **-** | 163 |
| Manufacturing | **48,174** | 107,060 | **34,582** | 100,702 |
| Electricity, gas and water | **3** | - | **-** | - |
| Construction | **44,512** | 55,318 | **43,730** | 52,863 |
| Real estate | **8** | - | **8** | - |
| Wholesale & retail trade, restaurants & hotels | **71,742** | 61,238 | **68,801** | 59,146 |
| Transport, storage and communication | **6,440** | 1,767 | **770** | 807 |
| Finance, insurance and business services | **1,596** | 1,871 | **971** | 1,525 |
| Household-retail | **513,716** | 562,711 | **375,699** | 408,207 |
| Others | **1,090** | 1,766 | **493** | 1,575 |
| | **688,245** | 792,365 | **526,018** | 625,459 |

**(iv) By purpose**

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Purchase of property: | | | | |
| Residential | **304,763** | 329,546 | **248,800** | 263,846 |
| Non residential | **23,649** | 21,615 | **16,463** | 21,513 |
| Purchase of securities | **1** | 1 | **1** | 1 |
| Purchase of transport vehicles | **872** | 403 | **576** | 334 |
| Consumption credit | **187,622** | 217,890 | **112,948** | 130,115 |
| Construction | **44,512** | 55,318 | **43,730** | 52,863 |
| Working capital | **126,140** | 166,879 | **103,500** | 156,787 |
| Other purpose | **686** | 713 | **-** | - |
| | **688,245** | 792,365 | **526,018** | 625,459 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 11 Impaired Loans, Advances and Financing (Cont'd)

### (v) By geographical distribution

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Northern Region | **142,255** | 168,164 | **108,391** | 129,556 |
| Southern Region | **91,696** | 166,026 | **70,451** | 139,817 |
| Central Region | **386,431** | 398,485 | **288,451** | 301,703 |
| Eastern Region | **67,863** | 59,690 | **58,725** | 54,383 |
| | **688,245** | 792,365 | **526,018** | 625,459 |

## 12 Other Assets

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Interest/ income receivable | **124,023** | 113,990 | **115,109** | 98,036 |
| Other receivables, deposits and prepayments | **539,069** | 647,696 | **448,851** | 640,868 |
| | **663,092** | 761,686 | **563,960** | 738,904 |

## 13 Statutory Deposits with Bank Negara Malaysia

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia (BNM) in compliance with Section 26(2)c and 26(3) of the Central Bank of Malaysia Act 2009, the amounts of which are determined at set percentages of total eligible liabilities.

## 14 Investments in Subsidiary Companies

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Unquoted shares, at cost - in Malaysia | **-** | - | **660,021** | 660,021 |

The subsidiary companies of the Bank are as follows:

| *Name* | *Percentage of equity held* | |
|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 |
| HSBC (Kuala Lumpur) Nominees Sdn Bhd* | **100%** | 100% |
| HSBC Nominees (Tempatan) Sdn Bhd* | **100%** | 100% |
| HSBC Nominees (Asing) Sdn Bhd* | **100%** | 100% |
| HSBC Amanah Malaysia Berhad* | **100%** | 100% |

All income and expenditure arising from the activities of subsidiaries which are nominee companies were recognised in the Bank's results.

* *Audited by KPMG Malaysia*

## 15 Investment in a Jointly Controlled Entity

HSBC Bank Malaysia Berhad is a joint venture partner in House Network Sdn Bhd "HOUSe". HOUSe's principal activity is the management of the shared Automated Teller Machine network amongst its member banks. The other three joint venture partners of HOUSe are Standard Chartered Bank Malaysia Berhad, United Overseas Bank Malaysia Berhad and OCBC Bank Malaysia Berhad, each holding RM1 paid up ordinary share.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 16 Property and Equipment

| | *Group* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **2014** | ***Freehold land*** | ***Short term leasehold land*** | ***Long term leasehold land*** | ***Buildings on freehold land*** | ***Buildings on short term leasehold land*** | ***Buildings on long term leasehold land*** | ***Office equipment, fixtures and fittings*** | ***Computer equipment*** | ***Motor vehicles*** | ***Total*** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Cost or valuation** | | | | | | | | | | |
| Balance as at 1 January | **104,218** | **15,717** | **4,674** | **122,342** | **11,163** | **3,526** | **236,490** | **114,256** | **2,883** | **615,269** |
| Additions | **-** | **-** | **-** | **64** | **-** | **-** | **5,042** | **13,082** | **313** | **18,501** |
| Disposals | **-** | **-** | **-** | **-** | **-** | **-** | **(76)** | **(1,849)** | **-** | **(1,925)** |
| Written off | **-** | **-** | **-** | **-** | **-** | **-** | **(3,084)** | **(10,143)** | **(4)** | **(13,231)** |
| Adjustments for revaluation | **8,870** | **1,000** | **400** | **(44)** | **-** | **-** | **-** | **-** | **-** | **10,226** |
| Balance as at 31 December | **113,088** | **16,717** | **5,074** | **122,362** | **11,163** | **3,526** | **238,372** | **115,346** | **3,192** | **628,840** |
| | | | | | | | | | | |
| Representing items at: | | | | | | | | | | |
| Cost | **-** | **-** | **-** | **-** | **-** | **-** | **238,372** | **115,346** | **3,192** | **356,910** |
| Valuation - 2014 | **113,088** | **16,717** | **5,074** | **122,362** | **11,163** | **3,526** | **-** | **-** | **-** | **271,930** |
| | **113,088** | **16,717** | **5,074** | **122,362** | **11,163** | **3,526** | **238,372** | **115,346** | **3,192** | **628,840** |
| | | | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | | | |
| Balance as at 1 January | **-** | **-** | **-** | **-** | **-** | **-** | **170,456** | **88,708** | **1,058** | **260,222** |
| Charge for the year | **-** | **455** | **117** | **3,065** | **301** | **88** | **21,245** | **9,929** | **517** | **35,717** |
| Disposals | **-** | **-** | **-** | **-** | **-** | **-** | **(76)** | **(1,286)** | **-** | **(1,362)** |
| Written off | **-** | **-** | **-** | **-** | **-** | **-** | **(3,077)** | **(10,132)** | **(4)** | **(13,213)** |
| Reclassification/other movements | **-** | **-** | **-** | **-** | **-** | **-** | **(1)** | **1** | **-** | **-** |
| Adjustments for revaluation | **-** | **(455)** | **(117)** | **(3,065)** | **(301)** | **(88)** | **-** | **-** | **-** | **(4,026)** |
| Balance as at 31 December | **-** | **-** | **-** | **-** | **-** | **-** | **188,547** | **87,220** | **1,571** | **277,338** |
| | | | | | | | | | | |
| **Net book value at 31 December** | **113,088** | **16,717** | **5,074** | **122,362** | **11,163** | **3,526** | **49,825** | **28,126** | **1,621** | **351,502** |

The land and buildings of the Group and the Bank were revalued on the open market value basis as of 31 December 2014 based on professional valuations.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 16 Property and Equipment (Cont'd)

| | *Group* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **2013** | *Freehold land* | *Short term leasehold land* | *Long term leasehold land* | *Buildings on freehold land* | *Buildings on short term leasehold land* | *Buildings on long term leasehold land* | *Office equipment, fixtures and fittings* | *Computer equipment* | *Motor vehicles* | *Total* |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **Cost or valuation** | | | | | | | | | | |
| Balance as at 1 January | 101,058 | 15,577 | 4,674 | 122,342 | 11,163 | 3,526 | 234,492 | 161,947 | 3,003 | 657,782 |
| Additions | - | - | - | 1,019 | - | - | 14,204 | 4,149 | 1,162 | 20,534 |
| Disposals | - | - | - | - | - | - | (161) | (1,591) | (1,227) | (2,979) |
| Written off | - | - | - | - | - | - | (12,199) | (50,095) | (55) | (62,349) |
| Reclassification/other movements | - | - | - | - | - | - | 154 | (154) | | - |
| Adjustments for revaluation | 3,160 | 140 | - | (1,019) | - | - | - | - | - | 2,281 |
| Balance at 31 December | 104,218 | 15,717 | 4,674 | 122,342 | 11,163 | 3,526 | 236,490 | 114,256 | 2,883 | 615,269 |
| | | | | | | | | | | |
| Representing items at: | | | | | | | | | | |
| Cost | - | - | - | - | - | - | 236,490 | 114,256 | 2,883 | 353,629 |
| Valuation - 2013 | 104,218 | 15,717 | 4,674 | 122,342 | 11,163 | 3,526 | - | - | - | 261,640 |
| | 104,218 | 15,717 | 4,674 | 122,342 | 11,163 | 3,526 | 236,490 | 114,256 | 2,883 | 615,269 |
| | | | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | | | |
| Balance as at 1 January | - | - | - | - | - | - | 158,984 | 127,935 | 1,669 | 288,588 |
| Charge for the year | - | 434 | 114 | 3,046 | 292 | 86 | 23,275 | 12,465 | 547 | 40,259 |
| Disposals | - | - | - | - | - | - | (160) | (1,591) | (1,103) | (2,854) |
| Written off | - | - | - | - | - | - | (11,649) | (50,095) | (55) | (61,799) |
| Reclassification/other movements | - | - | - | - | - | - | 6 | (6) | - | - |
| Adjustments for revaluation | - | (434) | (114) | (3,046) | (292) | (86) | - | - | - | (3,972) |
| Balance at 31 December | - | - | - | - | - | - | 170,456 | 88,708 | 1,058 | 260,222 |
| | | | | | | | | | | |
| **Net book value at 31 December** | 104,218 | 15,717 | 4,674 | 122,342 | 11,163 | 3,526 | 66,034 | 25,548 | 1,825 | 355,047 |

The land and buildings of the Group and the Bank were revalued on the open market value basis as of 31 December 2013 based on professional valuations.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 16 Property and Equipment (Cont'd)

| | Bank | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **2014** | *Freehold land* | *Short term leasehold land* | *Long term leasehold land* | *Buildings on freehold land* | *Buildings on short term leasehold land* | *Buildings on long term leasehold land* | *Office equipment, fixtures and fittings* | *Computer equipment* | *Motor vehicles* | *Total* |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Cost or valuation** | | | | | | | | | | |
| Balance as at 1 January | **104,218** | **15,717** | **4,674** | **122,342** | **11,163** | **3,526** | **202,714** | **97,096** | **2,662** | **564,112** |
| Additions | **-** | **-** | **-** | **64** | **-** | **-** | **3,880** | **12,354** | **313** | **16,611** |
| Disposals | **-** | **-** | **-** | **-** | **-** | **-** | **(76)** | **(1,849)** | **-** | **(1,925)** |
| Written off | **-** | **-** | **-** | **-** | **-** | **-** | **(3,084)** | **(9,887)** | **(4)** | **(12,975)** |
| Adjustments for revaluation | **8,870** | **1,000** | **400** | **(44)** | **-** | **-** | **-** | **-** | **-** | **10,226** |
| Balance as at 31 December | **113,088** | **16,717** | **5,074** | **122,362** | **11,163** | **3,526** | **203,434** | **97,714** | **2,971** | **576,049** |
| | | | | | | | | | | |
| Representing items at: | | | | | | | | | | |
| Cost | **-** | **-** | **-** | **-** | **-** | **-** | **203,434** | **97,714** | **2,971** | **304,119** |
| Valuation - 2014 | **113,088** | **16,717** | **5,074** | **122,362** | **11,163** | **3,526** | **-** | **-** | **-** | **271,930** |
| | **113,088** | **16,717** | **5,074** | **122,362** | **11,163** | **3,526** | **203,434** | **97,714** | **2,971** | **576,049** |
| | | | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | | | |
| Balance as at 1 January | **-** | **-** | **-** | **-** | **-** | **-** | **151,624** | **79,301** | **933** | **231,858** |
| Charge for the year | **-** | **455** | **117** | **3,065** | **301** | **88** | **14,996** | **7,753** | **473** | **27,248** |
| Disposals | **-** | **-** | **-** | **-** | **-** | **-** | **(76)** | **(1,286)** | **-** | **(1,362)** |
| Written off | **-** | **-** | **-** | **-** | **-** | **-** | **(3,077)** | **(9,876)** | **(4)** | **(12,957)** |
| Reclassification | **-** | **-** | **-** | **-** | **-** | **-** | **(1)** | **1** | **-** | **-** |
| Adjustments for revaluation | **-** | **(455)** | **(117)** | **(3,065)** | **(301)** | **(88)** | **-** | **-** | **-** | **(4,026)** |
| Balance as at 31 December | **-** | **-** | **-** | **-** | **-** | **-** | **163,466** | **75,893** | **1,402** | **240,761** |
| | | | | | | | | | | |
| **Net book value at 31 December** | **113,088** | **16,717** | **5,074** | **122,362** | **11,163** | **3,526** | **39,968** | **21,821** | **1,569** | **335,288** |

The land and buildings of the Bank were revalued on the open market value basis as of 31 December 2014 based on professional valuations.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**16 Property and Equipment (Cont'd)**

| | *Bank* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **2013** | *Freehold land* | *Short term leasehold land* | *Long term leasehold land* | *Buildings on freehold land* | *Buildings on short term leasehold land* | *Buildings on long term leasehold land* | *Office equipment, fixtures and fittings* | *Computer equipment* | *Motor vehicles* | *Total* |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **Cost or valuation** | | | | | | | | | | |
| Balance as at 1 January | 101,058 | 15,577 | 4,674 | 122,342 | 11,163 | 3,526 | 205,869 | 144,714 | 2,782 | 611,705 |
| Additions | - | - | - | 1,019 | - | - | 9,063 | 4,051 | 1,162 | 15,295 |
| Disposals | - | - | - | - | - | - | (161) | (1,578) | (1,227) | (2,966) |
| Written off | - | - | - | - | - | - | (12,138) | (50,091) | (55) | (62,284) |
| Reclassification | - | - | - | - | - | - | 85 | (85) | - | - |
| Net transfers to subsidiary | - | - | - | - | - | - | (4) | 85 | - | 81 |
| Adjustments for revaluation | 3,160 | 140 | - | (1,019) | - | - | - | - | - | 2,281 |
| Balance at 31 December | 104,218 | 15,717 | 4,674 | 122,342 | 11,163 | 3,526 | 202,714 | 97,096 | 2,662 | 564,112 |
| | | | | | | | | | | |
| Representing items at: | | | | | | | | | | |
| Cost | - | - | - | - | - | - | 202,714 | 97,096 | 2,662 | 302,472 |
| Valuation - 2013 | 104,218 | 15,717 | 4,674 | 122,342 | 11,163 | 3,526 | - | - | - | 261,640 |
| | 104,218 | 15,717 | 4,674 | 122,342 | 11,163 | 3,526 | 202,714 | 97,096 | 2,662 | 564,112 |
| | | | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | | | |
| Balance as at 1 January | - | - | - | - | - | - | 146,968 | 121,794 | 1,588 | 270,350 |
| Charge for the year | - | 434 | 114 | 3,046 | 292 | 86 | 16,416 | 9,176 | 503 | 30,067 |
| Disposals | - | - | - | - | - | - | (160) | (1,578) | (1,103) | (2,841) |
| Written off | - | - | - | - | - | - | (11,601) | (50,091) | (55) | (61,747) |
| Reclassification | - | - | - | - | - | - | 3 | (3) | - | - |
| Net transfers to subsidiary | - | - | - | - | - | - | (2) | 3 | - | 1 |
| Adjustments for revaluation | - | (434) | (114) | (3,046) | (292) | (86) | - | - | - | (3,972) |
| Balance at 31 December | - | - | - | - | - | - | 151,624 | 79,301 | 933 | 231,858 |
| | | | | | | | | | | |
| **Net book value at 31 December** | 104,218 | 15,717 | 4,674 | 122,342 | 11,163 | 3,526 | 51,090 | 17,795 | 1,729 | 332,254 |

The land and buildings of the Bank were revalued on the open market value basis as of 31 December 2013 based on professional valuations.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**17 Intangible Assets**

| | *Group* | *Bank* |
|---|---|---|
| | *Computer software* | |
| **2014** | **RM'000** | **RM'000** |
| **Cost** | | |
| Balance at 1 January | **216,424** | **211,331** |
| Additions | **28,783** | **28,783** |
| Disposal | **(118)** | **(118)** |
| Written off | **(438)** | **(438)** |
| Balance at 31 December | **244,651** | **239,558** |
| | | |
| **Accumulated depreciation** | | |
| Balance at 1 January | **161,072** | **155,988** |
| Charge for the year | **22,532** | **22,525** |
| Disposal | **(118)** | **(118)** |
| Written off | **(438)** | **(438)** |
| At 31 December | **183,048** | **177,957** |
| Accumulated depreciation | ***177,881*** | ***172,790*** |
| Accumulated impairment loss | ***5,167*** | ***5,167*** |
| | | |
| **Net book value at 31 December** | **61,603** | **61,601** |

| | | |
|---|---|---|
| **2013** | RM'000 | RM'000 |
| **Cost** | | |
| Balance at 1 January | 204,702 | 199,610 |
| Additions | 24,733 | 24,732 |
| Written off | (13,011) | (13,011) |
| Balance at 31 December | 216,424 | 211,331 |
| | | |
| **Accumulated depreciation** | | |
| Balance at 1 January | 151,177 | 146,114 |
| Charge for the year | 22,263 | 22,242 |
| Written off | (12,368) | (12,368) |
| At 31 December | 161,072 | 155,988 |
| Accumulated depreciation | *155,905* | *150,821* |
| Accumulated impairment loss | *5,167* | *5,167* |
| | | |
| **Net book value at 31 December** | 55,352 | 55,343 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 18 Deferred Tax Assets

The amounts, prior to offsetting are summarised as follows:

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014 RM'000** | 31 Dec 2013 RM'000 | **31 Dec 2014 RM'000** | 31 Dec 2013 RM'000 |
| Deferred tax assets | **122,808** | 133,155 | **113,742** | 124,114 |
| Deferred tax liabilities | **(51,155)** | (46,179) | **(49,846)** | (44,231) |
| | **71,653** | 86,976 | **63,896** | 79,883 |

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

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

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014 RM'000** | 31 Dec 2013 RM'000 | **31 Dec 2014 RM'000** | 31 Dec 2013 RM'000 |
| Property and equipment | | | | |
| Capital allowances | **(21,942)** | (19,398) | **(20,669)** | (17,511) |
| Revaluation | **(29,177)** | (26,704) | **(29,177)** | (26,704) |
| Available-for-sale reserve | **3,466** | 2,291 | **1,417** | 304 |
| Cash flow hedge reserve | **-** | (16) | **-** | (16) |
| Allowances | | | | |
| Collective impairment allowance | **2,074** | 1,536 | **2,051** | 1,520 |
| Others | **117,268** | 129,329 | **110,274** | 122,290 |
| Lease receivables | **(36)** | (62) | **-** | - |
| | **71,653** | 86,976 | **63,896** | 79,883 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**18 Deferred Tax Assets (Cont'd)**

**Movement in temporary differences during the year**

*Group*

| | *As at 01-Jan-13* | *Recognised in income statement* | *Recognised in other comprehensive income* | ***As at 31-Dec-13 / 01-Jan-14*** | ***Recognised in income statement*** | ***Recognised in other comprehensive income*** | ***As at 31-Dec-14*** |
|---|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Property and equipment | | | | | | | |
| - capital allowances | (19,649) | 251 | - | **(19,398)** | **(2,544)** | **-** | **(21,942)** |
| - revaluation | (21,592) | 595 | (5,707) | **(26,704)** | **(743)** | **(1,730)** | **(29,177)** |
| Available-for-sale reserve | (5,535) | - | 7,826 | **2,291** | **-** | **1,175** | **3,466** |
| Cash flow hedge reserve | (108) | - | 92 | **(16)** | **-** | **16** | **-** |
| Allowances | | | | | | | |
| - collective impairment allowance | 99,242 | (97,706) | - | **1,536** | **538** | **-** | **2,074** |
| - others | 118,779 | 10,550 | - | **129,329** | **(12,061)** | **-** | **117,268** |
| Lease receivables | (39) | (23) | - | **(62)** | **26** | **-** | **(36)** |
| Share based payments | 4,916 | (4,916) | - | **-** | **-** | **-** | **-** |
| | 176,014 | (91,249) | 2,211 | **86,976** | **(14,784)** | **(539)** | **71,653** |

*Bank*

| | *As at 01-Jan-13* | *Recognised in income statement* | *Recognised in other comprehensive income* | ***As at 31-Dec-13 / 01-Jan-14*** | ***Recognised in income statement*** | ***Recognised in other comprehensive income*** | ***As at 31-Dec-14*** |
|---|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Property and equipment | | | | | | | |
| - capital allowances | (16,856) | (655) | - | **(17,511)** | **(3,158)** | **-** | **(20,669)** |
| - revaluation | (21,592) | 595 | (5,707) | **(26,704)** | **(743)** | **(1,730)** | **(29,177)** |
| Available-for-sale reserve | (5,357) | - | 5,661 | **304** | **-** | **1,113** | **1,417** |
| Cash flow hedge reserve | (108) | - | 92 | **(16)** | **-** | **16** | **-** |
| Allowances | | | | | | | |
| - collective impairment allowance | 64,148 | (62,628) | - | **1,520** | **531** | **-** | **2,051** |
| - others | 109,390 | 12,900 | - | **122,290** | **(12,016)** | **-** | **110,274** |
| Share based payments | 4,916 | (4,916) | - | **-** | **-** | **-** | **-** |
| | 134,541 | (54,704) | 46 | **79,883** | **(15,386)** | **(601)** | **63,896** |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 19 Deposits from Customers

| (i) By type of deposit | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2014 RM'000** | 31 Dec 2013 RM'000 | **31 Dec 2014 RM'000** | 31 Dec 2013 RM'000 |
| Demand deposits | **16,422,923** | 16,281,709 | **14,873,978** | 15,030,335 |
| Savings deposits | **11,884,375** | 11,795,447 | **10,533,204** | 10,566,897 |
| Fixed / Investment deposits | **27,235,752** | 25,947,729 | **21,153,190** | 19,395,419 |
| Islamic repurchase agreements | **205,055** | 152,660 | **-** | - |
| Negotiable instruments of deposit | **1,565,790** | 1,719,359 | **884,379** | 1,181,951 |
| Wholesale money market deposits | **722,480** | 979,445 | **722,480** | 979,445 |
| Structured investments | **3,271,858** | 3,038,070 | **2,164,842** | 1,729,829 |
| | **61,308,233** | 59,914,419 | **50,332,073** | 48,883,876 |

Structured investments and negotiable instruments of deposits (included as customer deposits) are measured at fair value through profit or loss over the life of the instruments. Structured investments are deposits with embedded derivatives, of which both interest paid and fair valuation on the structured investments are recorded in net trading income, as per the Group and the Bank's accounting policy in Note 3 (j), and respective fair value on trading liabilities is shown in Note 5 (ii).

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

| | | | | |
|---|---|---|---|---|
| Due within six months | **21,491,012** | 21,126,243 | **16,212,088** | 15,399,451 |
| More than six months to one year | **5,749,002** | 5,281,421 | **4,764,425** | 4,372,052 |
| More than one year to three years | **1,067,139** | 323,652 | **997,257** | 231,633 |
| More than three years to five years | **494,389** | 931,858 | **63,799** | 570,320 |
| Over five years | **-** | 3,914 | **-** | 3,914 |
| | **28,801,542** | 27,667,088 | **22,037,569** | 20,577,370 |

| (ii) By type of customer | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2014 RM'000** | 31 Dec 2013 RM'000 | **31 Dec 2014 RM'000** | 31 Dec 2013 RM'000 |
| Government and statutory bodies | **73,212** | 124,171 | **61,658** | 36,960 |
| Business enterprises | **19,796,380** | 19,230,475 | **17,632,658** | 17,300,476 |
| Individuals | **30,838,842** | 29,662,946 | **24,049,006** | 22,624,464 |
| Others | **10,599,799** | 10,896,827 | **8,588,751** | 8,921,976 |
| | **61,308,233** | 59,914,419 | **50,332,073** | 48,883,876 |

## 20 Deposits and Placements from Banks and Other Financial Institutions

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2014 RM'000** | 31 Dec 2013 RM'000 | **31 Dec 2014 RM'000** | 31 Dec 2013 RM'000 |
| Licensed banks | **434,025** | - | **434,025** | - |
| Bank Negara Malaysia | **19,643** | 155,953 | **-** | 129,138 |
| Other financial institutions | **7,825,291** | 8,141,875 | **7,825,291** | 8,141,741 |
| | **8,278,959** | 8,297,828 | **8,259,316** | 8,270,879 |

## 21 Other Liabilities

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2014 RM'000** | 31 Dec 2013 RM'000 | **31 Dec 2014 RM'000** | 31 Dec 2013 RM'000 |
| Interest/ profit payable | **253,984** | 219,767 | **193,687** | 168,674 |
| Allowance for commitments and contingencies | **-** | 13,936 | **-** | 13,936 |
| Profit equalisation reserve | **943** | 1,290 | **-** | - |
| Other creditors and accruals | **1,837,773** | 1,401,302 | **1,880,811** | 1,463,933 |
| | **2,092,700** | 1,636,295 | **2,074,498** | 1,646,543 |

## 21 Other Liabilities (Cont'd)

Movement in allowance for commitments and contingencies is as follows:

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| At the beginning of the year | **13,936** | - | **13,936** | - |
| Allowance made during the year | **-** | 13,936 | **-** | 13,936 |
| Amount released | **(830)** | - | **(830)** | - |
| | **(830)** | 13,936 | **(830)** | 13,936 |
| Other movements | **(13,106)** | - | **(13,106)** | - |
| At the end of the year | **-** | 13,936 | **-** | 13,936 |

## 22 Multi-Currency Sukuk Programme

| | *Group* | |
|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 |
| Multi-Currency Sukuk Programme ('MCSP') | **1,001,854** | 500,000 |
| **(i)** MCSP 1st series | | |
| At amortised costs | **500,000** | 500,000 |
| | **500,000** | 500,000 |
| **(ii)** MCSP 2nd series | | |
| At fair value | **501,854** | - |
| | **501,854** | - |

HSBC Amanah Malaysia Berhad, a subsidiary of the Bank, issued its 1st series of a RM500 million 5-year Sukuk under its RM3 billion MCSP. The Sukuk's maturity date is 28 September 2017 and bears a distribution rate of 3.75% per annum payable semi-annually in arrears. This 1st series of Sukuk issued is carried at amortised cost.

2nd series of RM500 million 5 year Sukuk under the same MCSP was issued on 16 October 2014. The Sukuk's maturity date is 16 October 2019 and bears a distribution rate of 4.22% per annum payable semi-annually in arrears. This 2nd series of Sukuk issued is measured at fair value through profit and loss.

## 23 Subordinated Liabilities

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Subordinated Liabilities | **1,275,382** | 1,005,071 | **1,275,382** | 1,005,071 |
| **(i)** Subordinated liabilities, at par | **1,000,000** | 1,000,000 | **1,000,000** | 1,000,000 |
| Fair value changes arising from fair value hedge | **3,746** | 5,071 | **3,746** | 5,071 |
| | **1,003,746** | 1,005,071 | **1,003,746** | 1,005,071 |

(a) 4.35% coupon rate for RM 500 million due 2022 callable with a 100 bp step up coupon in 2017
(b) 5.05% coupon rate for RM 500 million due 2027 callable with a 100 bp step up coupon in 2022

The subordinated liabilities qualify as a component of Tier 2 capital of the Bank. Under the Capital Adequacy Framework (Capital Components), the par value of the subordinated liabilities are amortised on a straight line basis, with 10% of the par value phased out each year, with effect from 2013 for regulatory capital base purposes.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**23 Subordinated Liabilities (Cont'd)**

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **(ii)** Subordinated term loan | | | | |
| At amortised costs | **271,636** | **-** | **271,636** | **-** |
| | **271,636** | **-** | **271,636** | **-** |

This is a Basel III compliant Tier 2 subordinated loan of USD equivalent of RM250 million from the Bank's immediate holding company, HBAP (Hongkong and Shanghai Banking Corporation Limited). The Bank further invested a similar amount into HSBC Amanah Malaysia Berhad. The tenor of the facility is 10 years with the interest payable quarterly in arrears from the utilisation date.

**24 Share Capital**

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Authorised** | | | | |
| 1 billion ordinary shares of RM0.50 each | **500,000** | 500,000 | **500,000** | 500,000 |
| 1 billion preference shares of RM0.50 each | **500,000** | 500,000 | **500,000** | 500,000 |
| | **1,000,000** | 1,000,000 | **1,000,000** | 1,000,000 |
| **Issued and Fully Paid** | | | | |
| 229 million ordinary shares of RM0.50 each | **114,500** | 114,500 | **114,500** | 114,500 |

**25 Reserves**

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Share premium | **741,375** | 741,375 | **741,375** | 741,375 |
| Statutory reserve | **164,500** | 164,500 | **114,500** | 114,500 |
| Revaluation reserve | **177,624** | 166,049 | **177,624** | 166,049 |
| Capital redemption reserve | **190,000** | 190,000 | **190,000** | 190,000 |
| Cash flow hedge reserve | **-** | 48 | **-** | 48 |
| Available-for-sale reserve | **(10,975)** | (6,871) | **(4,487)** | (911) |
| Capital contribution reserve | **97,757** | 95,470 | **96,383** | 94,178 |
| Regulatory reserve | **180,000** | - | **167,000** | - |
| Retained profits (exclude proposed dividends) | **5,052,273** | 4,674,062 | **4,451,450** | 4,202,012 |
| | **6,592,554** | 6,024,633 | **5,933,845** | 5,507,251 |

The statutory reserve is maintained in compliance with Section 12 of the Financial Services Act 2013 (FSA) for the Bank and Section 12 of the Islamic Financial Services Act 2013 (IFSA) for its Islamic subsidiary respectively, 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 regulatory reserve is maintained in compliance with paragraph 13 of BNM's policy document on Classification and Impairment Provisions for Loans/ Financing and subsequent circular issued on 4 February 2014.

The Malaysian Finance Act 2007 introduced the single tier tax system with effect from 1 January 2008. Under this system, tax on a company's profits is a final tax and dividends are tax exempt in the hands of shareholders.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 26 Net Interest Income

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Interest income** | | | | |
| Loans and advances | | | | |
| - Interest income other than from impaired loans | **1,586,775** | 1,587,747 | **1,586,775** | 1,587,747 |
| - Interest income recognised from impaired loans | **57,070** | 38,168 | **57,070** | 38,168 |
| Money at call and deposit placements with financial institutions | **535,582** | 473,563 | **578,096** | 510,121 |
| Financial investments available-for-sale | **244,341** | 186,246 | **244,341** | 186,246 |
| | **2,423,768** | 2,285,724 | **2,466,282** | 2,322,282 |
| **Interest expense** | | | | |
| Deposits and placements of banks and other financial institutions | **(84,107)** | (65,294) | **(84,107)** | (65,294) |
| Deposits from customers | **(762,871)** | (761,935) | **(762,871)** | (761,935) |
| Subordinated liabilities | **(47,453)** | (43,570) | **(47,453)** | (43,570) |
| Others | **(10,655)** | (11,836) | **(10,655)** | (11,836) |
| | **(905,086)** | (882,635) | **(905,086)** | (882,635) |
| **Net interest income** | **1,518,682** | 1,403,089 | **1,561,196** | 1,439,647 |

## 27 Net Fee and Commission Income

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Fee and commission income** | | | | |
| Credit cards | **175,700** | 177,184 | **175,700** | 177,184 |
| Service charges and fees | **157,952** | 164,888 | **157,952** | 164,888 |
| Fees on credit facilities | **38,879** | 34,405 | **38,879** | 34,405 |
| Agency fee | **63,236** | 62,989 | **63,236** | 62,989 |
| Others | **53,256** | 52,401 | **53,286** | 52,431 |
| | **489,023** | 491,867 | **489,053** | 491,897 |
| **Fee and commission expense** | | | | |
| Interbank and clearing fees | **(1,496)** | (1,209) | **(1,496)** | (1,209) |
| Brokerage | **(2,589)** | (3,147) | **(2,589)** | (3,147) |
| Others | **(33,357)** | (34,087) | **(33,357)** | (34,087) |
| | **(37,442)** | (38,443) | **(37,442)** | (38,443) |
| **Net fee and commission income** | **451,581** | 453,424 | **451,611** | 453,454 |

## 28 Net Trading Income

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Realised gains on financial assets/liabilities held-for-trading and other financial instruments | **50,830** | 62,122 | **50,830** | 62,122 |
| Net interest income from financial assets held-for-trading | **36,020** | 15,794 | **36,020** | 15,794 |
| Net unrealised gains on revaluation of financial assets held-for-trading | **27,433** | 5,214 | **27,433** | 5,214 |
| Net realised gains arising from dealing in foreign currency | **218,702** | 397,027 | **246,879** | 407,034 |
| Net unrealised gains from dealing in foreign currency | **58,137** | 16,863 | **52,108** | 16,863 |
| Net realised gains arising from dealing in derivatives | **67,444** | 44,738 | **64,572** | 45,127 |
| Net unrealised losses on revaluation of derivatives | **(92,598)** | (5,022) | **(91,551)** | (7,680) |
| Losses arising from fair value hedges | **(1)** | (95) | **(305)** | (95) |
| | **365,967** | 536,641 | **385,986** | 544,379 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 29 Income from Islamic Banking operations

| | Group | |
|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 |
| Income derived from investment of depositor funds and others | **662,117** | 603,097 |
| Income derived from investment of shareholders funds | **131,598** | 126,609 |
| Income attributable to the depositors | **(247,487)** | (219,837) |
| | **546,228** | 509,869 |

## 30 Other Operating Income

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Disposal of financial investments available-for-sale | **10,038** | 11,309 | **10,038** | 11,309 |
| Dividend income from financial investments available-for-sale | | | | |
| - Unquoted in Malaysia | **1,415** | 1,175 | **1,415** | 1,175 |
| Rental income | **6,982** | 7,145 | **6,982** | 7,145 |
| Net (losses)/ gains on disposal of property and equipment | **(460)** | 456 | **(460)** | 456 |
| Net upwards revaluation on property | **21** | 20 | **21** | 20 |
| Other operating income | **19,560** | 19,660 | **149,988** | 146,005 |
| | **37,556** | 39,765 | **167,984** | 166,110 |

## 31 Loans/ Financing Impairment Charges and other Credit Risk Provisions

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Impairment charges on loans and financing: | | Restated | | Restated |
| (a) Individual allowance for impairment | | | | |
| Made during the year | **122,431** | 164,223 | **88,788** | 136,638 |
| Written back | **(178,266)** | (116,104) | **(146,527)** | (94,120) |
| (b) Collective allowance for impairment | | | | |
| Made during the year | **281,197** | 367,233 | **162,585** | 209,273 |
| Written back | **(69,701)** | (136,546) | **(43,828)** | (69,637) |
| Impaired loans and financing | | | | |
| Recovered during the year | **(89,607)** | (102,815) | **(58,794)** | (71,732) |
| Written off | **42,485** | 15,351 | **37,726** | 12,607 |
| Impairment charges on other credit related items | | | | |
| Made during the year | **(830)** | 13,721 | **(830)** | 13,721 |
| | **107,709** | 205,063 | **39,120** | 136,750 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 32 Other Operating Expenses

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2014 RM'000** | 31 Dec 2013 RM'000 Restated | **31 Dec 2014 RM'000** | 31 Dec 2013 RM'000 |
| Personnel expenses | **621,464** | 595,974 | **578,496** | 563,874 |
| Promotion and marketing related expenses | **102,829** | 81,789 | **78,136** | 64,252 |
| Establishment related expenses | **152,303** | 153,677 | **129,878** | 130,736 |
| General administrative expenses | **448,995** | 393,464 | **436,311** | 382,814 |
| | **1,325,591** | 1,224,904 | **1,222,821** | 1,141,676 |
| Personnel expenses | | | | |
| Salaries, allowances and bonuses | **481,896** | 463,790 | **446,962** | 433,973 |
| Employees Provident Fund contributions | **80,437** | 76,985 | **74,726** | 72,673 |
| Others | **59,131** | 55,199 | **56,808** | 57,228 |
| | **621,464** | 595,974 | **578,496** | 563,874 |
| Promotion and marketing related expenses | **102,829** | 81,789 | **78,136** | 64,252 |
| Establishment related expenses | | | | |
| Depreciation of property and equipment | **35,717** | 40,259 | **27,248** | 30,067 |
| Amortisation of intangible assets | **22,532** | 22,263 | **22,525** | 22,242 |
| Impairment of intangibles | **-** | 643 | **-** | 643 |
| Information technology costs | **13,906** | 13,235 | **11,593** | 11,326 |
| Hire of equipment | **9,299** | 10,593 | **9,279** | 10,564 |
| Rental of premises | **42,045** | 37,418 | **33,747** | 29,491 |
| Property and equipment written off | **18** | 550 | **18** | 537 |
| General repairs and maintenance | **7,272** | 8,637 | **7,272** | 8,637 |
| Utilities | **15,583** | 14,614 | **13,590** | 12,859 |
| Others | **5,931** | 5,465 | **4,606** | 4,370 |
| | **152,303** | 153,677 | **129,878** | 130,736 |
| General administrative expenses | | | | |
| Intercompany expenses | **295,155** | 243,797 | **298,441** | 246,869 |
| Auditors' remuneration | | | | |
| Statutory audit fees | | | | |
| KPMG Malaysia | **505** | 505 | **385** | 385 |
| Other services | | | | |
| KPMG Malaysia | **540** | 500 | **370** | 350 |
| Professional fees | **9,839** | 10,642 | **8,308** | 8,862 |
| Entertainment | **5,998** | 5,121 | **5,586** | 4,781 |
| Communication | **22,180** | 22,782 | **20,746** | 21,296 |
| Others | **114,778** | 110,117 | **102,475** | 100,271 |
| | **448,995** | 393,464 | **436,311** | 382,814 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 33 Income tax expense

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Malaysian income tax | | | | |
| - Current year | **366,144** | 395,980 | **324,999** | 352,800 |
| - Prior years | **(138)** | (94,252) | **360** | (58,210) |
| Total current tax recognised in profit or loss | **366,006** | 301,728 | **325,359** | 294,590 |
| Deferred tax | | | | |
| Origination and reversal of temporary differences | | | | |
| - Current year | **14,695** | (11,465) | **15,386** | (12,835) |
| - Over provision in prior years | **89** | 102,714 | **-** | 67,539 |
| Total deferred tax recognised in profit or loss | **14,784** | 91,249 | **15,386** | 54,704 |
| Total income tax expense | **380,790** | 392,977 | **340,745** | 349,294 |

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

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Profit before income tax | **1,486,714** | 1,512,178 | **1,304,836** | 1,324,521 |
| Income tax using Malaysian tax rates (25%) | **371,679** | 378,044 | **326,209** | 331,130 |
| Non-deductible expenses | **13,621** | 11,340 | **11,674** | 9,010 |
| Tax exempt income | **(7,555)** | (4,869) | **(354)** | (175) |
| Impact on change of tax rates | **3,094** | - | **2,856** | - |
| Underprovision/(overprovision) in respect of prior years | **(49)** | 8,462 | **360** | 9,329 |
| Income tax expense | **380,790** | 392,977 | **340,745** | 349,294 |

The corporate tax rate will be reduced to 24% with effect Year of Assessment 2016. Consequently, deferred tax assets and liabilities are measured using these tax rates.

## 34 Earnings per Share

The earnings per ordinary share have been calculated based on profit for the year and 229,000,000 (2013: 229,000,000) ordinary shares of RM0.50 each in issue during the year.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 35 Significant Related Party Transactions and Balances

For the purpose of these financial statements, parties are considered to be related to the Group if : -

a. the Group or the Bank has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial or operational decisions, or vice versa, or

b. where the Group or the Bank and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

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

ii the Bank's subsidiaries, holding company and ultimate holding company,

ii subsidiary and associated companies of the Bank's ultimate holding company,

iii key management personnel who are defined as those person having authority and responsibility for planning, directing and controlling the activities of the Group and the Bank. Key management personnel include all members of the Board of Directors of HSBC Bank Malaysia Berhad and its subsidiaries.

iv the close family members of key management personnel.

(a) The significant transactions and outstanding balances of the Group and the Bank with parent companies and other related companies,other than key management personnel compensation, are as follows:

| | *Group* | | | |
|---|---|---|---|---|
| | **2014** | | 2013 | |
| | ***Parent companies*** | ***Other related companies*** | *Parent companies* | *Other related companies* |
| | **RM'000** | **RM'000** | RM'000 | RM'000 |
| Income | | | | |
| Interest/profit on intercompany placements | **1,128** | **208** | 2,495 | 2,641 |
| Interest/profit on current accounts | **-** | **-** | - | 147 |
| Fees and commission | **17,452** | **35,759** | 10,352 | 36,288 |
| Other income | **3,926** | **12,976** | 2,659 | 14,386 |
| | **22,506** | **48,943** | 15,506 | 53,462 |
| Expenditure | | | | |
| Interest/profit on intercompany deposits | **19,273** | **13,076** | 22,462 | 9,739 |
| Interest/profit on current accounts | **-** | **615** | - | 565 |
| Fees and commission | **506** | **6,511** | 1,136 | 6,351 |
| Operating expenses | **268,455** | **55,148** | 228,111 | 34,544 |
| | **288,234** | **75,350** | 251,709 | 51,199 |
| Amount due from | | | | |
| Intercompany placements | **408,515** | **7** | 423,538 | 212 |
| Current account balances | **25,887** | **454,113** | 48,918 | 653,998 |
| Other assets | **4,843** | **79,311** | 150,218 | 33,786 |
| | **439,245** | **533,431** | 622,674 | 687,996 |
| Amount due to | | | | |
| Intercompany deposits | **3,289,421** | **338,386** | 3,680,604 | 515,787 |
| Current account balances | **281,163** | **680,137** | 512,860 | 281,589 |
| Other liabilities | **703,041** | **79,344** | 195,628 | 38,473 |
| | **4,273,625** | **1,097,867** | 4,389,092 | 835,849 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**35 Significant Related Party Transactions and Balances (Cont'd)**

| | *Bank* | | | |
|---|---|---|---|---|
| | **2014** | | 2013 | |
| | ***Parent companies*** | ***Other related companies*** | *Parent companies* | *Other related companies* |
| | **RM'000** | **RM'000** | RM'000 | RM'000 |
| Income | | | | |
| Interest on intercompany placements | **1,128** | **42,722** | 2,495 | 39,199 |
| Interest on current accounts | **-** | **-** | - | 147 |
| Fees and commission | **11,419** | **23,460** | 5,754 | 21,841 |
| Other income | **3,926** | **142,752** | 2,659 | 140,731 |
| | **16,473** | **208,934** | 10,908 | 201,918 |
| Expenditure | | | | |
| Interest on intercompany deposits | **19,273** | **10,523** | 22,462 | 8,201 |
| Interest on current accounts | **-** | **615** | - | 565 |
| Fees and commission | **502** | **6,305** | 1,134 | 6,204 |
| Operating expenses | **268,455** | **58,434** | 228,111 | 41,893 |
| | **288,230** | **75,877** | 251,707 | 56,863 |
| Amount due from | | | | |
| Intercompany placements | **408,515** | **2,753,605** | 423,538 | 1,553,732 |
| Current account balances | **21,580** | **388,227** | 48,060 | 602,237 |
| Other assets | **4,843** | **82,176** | 150,218 | 34,136 |
| | **434,938** | **3,224,008** | 621,816 | 2,190,105 |
| Amount due to | | | | |
| Intercompany deposits | **3,289,421** | **338,386** | 3,680,604 | 361,886 |
| Current account balances | **281,163** | **569,069** | 512,726 | 281,589 |
| Other liabilities | **703,027** | **214,227** | 195,628 | 187,565 |
| | **4,273,611** | **1,121,682** | 4,388,958 | 831,040 |

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

Outstanding loan, advances and financing balances due by the key management personnel of the Group and the Bank at 31 December 2014 amount to RM121,182 (2013: RM166,929) and RM39,594 (2013: RM98,608) respectively.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**35 Significant Related Party Transactions and Balances (Cont'd)**

(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 and its subsidiaries, charged to the statements of profit or loss and other comprehensive income during the financial year are as follows: -

**2014**

| Group (RM'000) | Salaries and bonuses | Other remuneration and employee benefits | Benefits-in kind | Fees | Total |
|---|---|---|---|---|---|
| **Executive Directors of the Bank** | | | | | |
| Mukhtar Malik Hussain (CEO) | 4,632 | 7,469 | 458 | - | 12,559 |
| Baldev Singh s/o Gurdial Singh# | 1,218 | 786 | - | - | 2,004 |
| **Executive Director of subsidiary companies** | | | | | |
| Mohamed Rafe Bin Mohamed Haneef | 2,184 | 511 | 152 | - | 2,847 |
| **Non Executive Directors of the Bank and subsidiary companies** | | | | | |
| Ching Yew Chye | - | - | - | 142 | 142 |
| Datuk Shireen Ann Zaharah Muhiudeen | - | - | - | 115 | 115 |
| Lee Choo Hock | - | - | - | 141 | 141 |
| Tan Kar Leng @ Chen Kar Leng^ | - | - | - | 93 | 93 |
| Tan Sri Dato' Tan Boon Seng @ Krishnan^ | - | - | - | 108 | 108 |
| Tan Sri Dato’ Sulaiman bin Sujak* | - | - | - | 42 | 42 |
| Dato’ Henry Sackville Barlow* | - | - | - | 43 | 43 |
| Datuk Ramli bin Ibrahim* | - | - | - | 43 | 43 |
| Mohamed Ross bin Mohd Din | - | - | - | 112 | 112 |
| Azlan bin Abdullah | - | - | - | 97 | 97 |
| Mohamed Ashraf Bin Mohamed Iqbal | - | - | - | 101 | 101 |
| Seow Yoo Lin## | - | - | - | 99 | 99 |
| Adil Ahmad** | - | - | - | 52 | 52 |
| | 8,034 | 8,766 | 610 | 1,188 | 18,598 |

# Retired on 9 November 2014

^ Appointed on 2 April 2014

* Retired on 15 April 2014

## Appointed on 12 February 2014

**Appointed on 5 May 2014

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**35 Significant Related Party Transactions and Balances (Cont'd)**

(b) Key Management Personnel Compensation (Cont'd)

**2013**

| Group (RM'000) | Salaries and bonuses | Other remuneration and employee benefits | Benefits-in kind | Fees | Total |
|---|---|---|---|---|---|
| **Executive Directors of the Bank** | | | | | |
| Mukhtar Malik Hussain (CEO) | 3,750 | 453 | 106 | - | 4,309 |
| Baldev Singh s/o Gurdial Singh | 1,137 | 256 | 7 | - | 1,400 |
| **Executive Director of subsidiary companies** | | | | | |
| Mohamed Rafe Bin Mohamed Haneef | 2,069 | 259 | 18 | - | 2,346 |
| **Non Executive Directors of the Bank and subsidiary companies** | | | | | |
| Tan Sri Dato' Sulaiman bin Sujak | - | - | - | 128 | 128 |
| Dato' Henry Sackville Barlow | - | - | - | 131 | 131 |
| Datuk Ramli bin Ibrahim | - | - | - | 131 | 131 |
| Ching Yew Chye | - | - | - | 112 | 112 |
| Datuk Shireen Ann Zaharah Muhiudeen* | - | - | - | 8 | 8 |
| Lee Choo Hock* | - | - | - | 111 | 111 |
| Mohamed Ross bin Mohd Din | - | - | - | 103 | 103 |
| Azlan bin Abdullah | - | - | - | 90 | 90 |
| Mohamed Ashraf Bin Mohamed Iqbal | - | - | - | 93 | 93 |
| | 6,956 | 968 | 131 | 907 | 8,962 |

* Appointed on 5 December 2013

## 35 Significant Related Party Transactions and Balances (Cont'd)

(b) Key Management Personnel Compensation (Cont'd)

**2014**

| **Bank (RM'000)** | **Salaries and bonuses** | **Other remuneration and employee benefits** | **Benefits-in kind** | **Fees** | **Total** |
|---|---|---|---|---|---|
| **Executive Directors of the Bank** | | | | | |
| Mukhtar Malik Hussain (CEO) | **4,632** | **7,469** | **458** | **-** | **12,559** |
| Baldev Singh s/o Gurdial Singh | **1,218** | **786** | **-** | **-** | **2,004** |
| **Non Executive Directors of the Bank** | | | | | |
| Ching Yew Chye | **-** | **-** | **-** | **142** | **142** |
| Datuk Shireen Ann Zaharah Muhiudeen | **-** | **-** | **-** | **115** | **115** |
| Lee Choo Hock | **-** | **-** | **-** | **128** | **128** |
| Tan Kar Leng @ Chen Kar Leng^ | **-** | **-** | **-** | **93** | **93** |
| Tan Sri Dato' Tan Boon Seng @ Krishnan^ | **-** | **-** | **-** | **108** | **108** |
| Tan Sri Dato' Sulaiman bin Sujak* | **-** | **-** | **-** | **42** | **42** |
| Dato' Henry Sackville Barlow* | **-** | **-** | **-** | **43** | **43** |
| Datuk Ramli bin Ibrahim* | **-** | **-** | **-** | **43** | **43** |
| | **5,850** | **8,255** | **458** | **714** | **15,277** |

# Retired on 9 November 2014
^ Appointed on 2 April 2014
* Retired on 15 April 2014

**2013**

| **Bank (RM'000)** | Salaries and bonuses | Other remuneration and employee benefits | Benefits-in kind | Fees | Total |
|---|---|---|---|---|---|
| **Executive Directors of the Bank** | | | | | |
| Mukhtar Malik Hussain (CEO) | 3,750 | 453 | 106 | - | 4,309 |
| Baldev Singh s/o Gurdial Singh | 1,137 | 256 | 7 | - | 1,400 |
| **Non Executive Directors of the Bank** | | | | | |
| Tan Sri Dato' Sulaiman bin Sujak | - | - | - | 128 | 128 |
| Dato' Henry Sackville Barlow | - | - | - | 131 | 131 |
| Datuk Ramli bin Ibrahim | - | - | - | 131 | 131 |
| Ching Yew Chye | - | - | - | 112 | 112 |
| Datuk Shireen Ann Zaharah Muhiudeen* | - | - | - | 8 | 8 |
| Lee Choo Hock* | - | - | - | 8 | 8 |
| | 4,887 | 709 | 113 | 518 | 6,227 |

* Appointed on 5 December 2013

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 36 Credit exposure to connected parties

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| | | (Restated) | | |
| Aggregate value of outstanding credit exposures to connected parties | **5,822,356** | 1,749,610 | **4,909,114** | 1,518,053 |
| As a percentage of total credit exposures | **8.9%** | 2.8% | **9.4%** | 2.9% |
| Aggregate value of total outstanding credit exposures to connected parties which is impaired or in default | **-** | - | **-** | - |
| As a percentage of total credit exposures | **-** | - | **-** | - |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 37 Capital Adequacy

| | Group | |
|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 |
| **Tier 1 capital** | | |
| Paid-up ordinary share capital | **114,500** | 114,500 |
| Share premium | **741,375** | 741,375 |
| Retained profits (including proposed dividend) | **5,352,272** | 4,974,062 |
| Other reserves | **824,618** | 638,066 |
| Regulatory adjustments | **(558,088)** | (364,017) |
| Total Common Equity Tier 1 (CET 1) and Tier 1 capital | **6,474,677** | 6,103,986 |
| **Tier 2 capital** | | |
| Subordinated liabilities | **800,000** | 900,000 |
| Subordinated term loan | **271,636** | - |
| Collective impairment allowance (unimpaired portion) & regulatory reserves | **485,231** | 295,487 |
| Regulatory adjustments | **93,061** | 88,738 |
| Total Tier 2 capital | **1,649,928** | 1,284,225 |
| **Capital base** | **8,124,605** | 7,388,211 |
| Inclusive of proposed dividend | | |
| CET 1 and Tier 1 Capital ratio | **12.229%** | 11.893% |
| Total Capital ratio | **15.345%** | 14.395% |
| Net of proposed dividend | | |
| CET 1 and Tier 1 Capital ratio | **11.662%** | 11.308% |
| Total Capital ratio | **14.778%** | 13.811% |

The total capital and capital adequacy ratios of the Group have been computed based on the Standardised Approach in accordance with the Capital Adequacy Framework (Capital Components).

For HSBC Amanah Malaysia Berhad (a fully owned subsidiary of the Bank), the total capital and capital adequacy ratios have been computed in accordance with the Capital Adequacy Framework for Islamic Banks (CAFIB). HSBC Amanah Malaysia Berhad has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

Breakdown of gross risk-weighted assets ('RWA') in the various categories of risk-weights:

| | Group | | | |
|---|---|---|---|---|
| | **31 Dec 2014** | | 31 Dec 2013 | |
| | **Principal** | **Risk-weighted** | Principal | Risk-weighted |
| | **RM'000** | **RM'000** | RM'000 | RM'000 |
| Total RWA for credit risk | **96,267,040** * | **45,497,242** * | 92,358,223 * | 43,621,505 * |
| Total RWA for market risk | **-** | **1,738,308** | - | 2,069,891 |
| Total RWA for operational risk | **-** | **5,711,241** | - | 5,632,809 |
| | **96,267,040** | **52,946,791** | 92,358,223 | 51,324,205 |

* The principal and risk weighted amount for credit risk relating to the RPSIA (refer Note 10(i) for more details) is RM415.74m for both on 31 December 2014 (2013: RM629.76m).

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**37 Capital Adequacy (Cont'd)**

| | *Bank* | |
|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 |
| **Tier 1 capital** | | |
| Paid-up ordinary share capital | **114,500** | 114,500 |
| Share premium | **741,375** | 741,375 |
| Retained profits (including proposed dividend) | **4,751,450** | 4,502,012 |
| Other reserves | **768,781** | 594,721 |
| Regulatory adjustments | **(674,418)** | (358,901) |
| Total Common Equity Tier 1 (CET1) and Tier 1 capital | **5,701,688** | 5,593,707 |
| **Tier 2 capital** | | |
| Subordinated liabilities | **800,000** | 900,000 |
| Subordinated term loan | **271,636** | - |
| Collective impairment allowance (unimpaired portion) & regulatory reserves | **388,542** | 219,837 |
| Regulatory adjustments | **(706,592)** | (571,283) |
| Total Tier 2 capital | **753,586** | 548,554 |
| **Capital base** | **6,455,274** | 6,142,261 |
| Inclusive of proposed dividend | | |
| CET 1 and Tier 1 Capital ratio | **13.272%** | 12.961% |
| Total Capital ratio | **15.026%** | 14.232% |
| Net of proposed dividend | | |
| CET 1 and Tier 1 Capital ratio | **12.573%** | 12.266% |
| Total Capital ratio | **14.327%** | 13.537% |

The total capital and capital adequacy ratios have been computed based on the Standardised Approach in accordance with the Capital Adequacy Framework (Capital Components).

Breakdown of gross RWA in the various categories of risk-weights:

| | *Bank* | | | |
|---|---|---|---|---|
| | **31 Dec 2014** | | 31 Dec 2013 | |
| | **Principal** | **Risk-weighted** | Principal | Risk-weighted |
| | **RM'000** | **RM'000** | RM'000 | RM'000 |
| Total RWA for credit risk | **80,460,467** * | **36,254,715** * | 78,044,530 * | 36,133,709 * |
| Total RWA for market risk | **-** | **1,627,955** | - | 1,991,640 |
| Total RWA for operational risk | **-** | **5,079,063** | - | 5,033,713 |
| | **80,460,467** | **42,961,733** | 78,044,530 | 43,159,062 |

* The principal and risk weighted amount for credit risk relating to the RPSIA (refer Note 10(i) for more details) is RM415.74m for both on 31 December 2014 (2013: RM629.76m).

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 38 Commitments and Contingencies

The table below shows the contracts or underlying principal amounts, positive fair value of derivative contracts, credit equivalent amounts and risk weighted amounts of unmatured off-balance sheet transactions at the statement of financial position date. The underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk.

| 31 December 2014 | Group | | | |
|---|---|---|---|---|
| | Credit Principal amount RM'000 | Positive fair value of derivative contracts^ RM'000 | Credit equivalent amount* RM'000 | Risk weighted amount* RM'000 |
| Direct credit substitutes | 2,388,301 | - | 2,388,301 | 1,830,575 |
| Transaction-related contingent items | 7,448,338 | - | 3,724,169 | 2,868,474 |
| Short-term self-liquidating trade-related contingencies | 369,806 | - | 73,961 | 62,613 |
| Irrevocable commitments to extend credit: | | | | |
| - Maturity not exceeding one year | 15,443,433 | - | 3,088,687 | 2,796,855 |
| - Maturity exceeding one year | 7,947,673 | - | 3,973,837 | 3,484,516 |
| Unutilised credit card lines | 7,954,697 | - | 1,590,939 | 1,193,205 |
| Foreign exchange related contracts: | | | | |
| - Less than one year | 41,149,393 | 877,871 | 1,503,850 | 831,571 |
| - Over one year to less than five years | 9,513,564 | 572,319 | 1,251,056 | 601,533 |
| - Over five years | 3,354,844 | 171,843 | 528,333 | 264,683 |
| Interest/profit rate related contracts: | | | | |
| - Less than one year | 8,790,160 | 13,435 | 24,310 | 9,349 |
| - Over one year to less than five years | 28,640,942 | 125,670 | 790,728 | 298,274 |
| - Over five years | 2,568,230 | 29,378 | 217,844 | 90,586 |
| Gold and other precious metals contracts: | | | | |
| - Less than one year | 11,978 | 20 | - | - |
| Equity related contracts: | | | | |
| - Less than one year | 491,934 | 1,122 | 32,357 | 6,471 |
| - Over one year to less than five years | 2,368,048 | 8,043 | 197,487 | 39,497 |
| | 138,441,341 | 1,799,701 | 19,385,859 | 14,378,202 |
| | | Note 39 | | |

^ The foreign exchange and equity related contracts, interest/profit rate related contracts, gold and other precious metals 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/profit rates and commodities price) of the underlying instruments. The table above shows the Group's derivative financial instruments at the statement of financial position date. The underlying principal amount of these derivative financial instruments and their corresponding gross positive (derivative financial asset) fair values at the statement of financial position date are shown above.

* The credit equivalent and risk weighted amounts are computed using credit conversion factors and risk weighting rules as per Bank Negara Malaysia guidelines. The credit conversion factors and risk weighting rules for the Bank were based on the guidelines of the Capital Adequacy Framework on the Standardised Approach. The credit conversion factors and risk weighting rules for HSBC Amanah Malaysia Berhad were based on the Basel II Capital Adequacy Framework for Islamic Bank (CAFIB).

Of the amounts included in the Commitment and Contingencies balances above, none relate to the RPSIA2 arrangement (refer Note 10(i) for more details).

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 38 Commitments and Contingencies (Cont'd)

The table below shows the contracts or underlying principal amounts, positive fair value of derivative contracts, credit equivalent amounts and risk weighted amounts of unmatured off-balance sheet transactions at the statement of financial position date. The underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk.

| **31 December 2013** | Group | | | |
|---|---|---|---|---|
| | Credit Principal amount RM'000 | Positive fair value of derivative contracts^ RM'000 | Credit equivalent amount* RM'000 | Risk weighted amount* RM'000 |
| Direct credit substitutes | 2,465,200 | - | 2,465,200 | 2,220,317 |
| Transaction-related contingent items | 5,492,236 | - | 2,746,118 | 2,125,241 |
| Short-term self-liquidating trade-related contingencies | 335,070 | - | 67,014 | 55,690 |
| Irrevocable commitments to extend credit: | | | | |
| - Maturity not exceeding one year | 13,889,190 | - | 2,777,838 | 2,429,856 |
| - Maturity exceeding one year | 7,109,109 | - | 3,554,554 | 2,998,411 |
| Unutilised credit card lines | 7,498,000 | - | 1,499,600 | 1,124,700 |
| Foreign exchange related contracts: | | | | |
| - Less than one year | 40,404,219 | 486,910 | 1,110,031 | 583,573 |
| - Over one year to less than five years | 9,510,501 | 385,096 | 1,081,810 | 547,580 |
| - Over five years | 2,293,105 | 123,138 | 362,966 | 207,866 |
| Interest/profit rate related contracts: | | | | |
| - Less than one year | 12,560,652 | 30,226 | 49,694 | 15,034 |
| - Over one year to less than five years | 31,948,817 | 189,767 | 975,652 | 333,899 |
| - Over five years | 3,731,860 | 70,429 | 344,401 | 128,387 |
| Gold and other precious metals contracts: | | | | |
| - Less than one year | 60,712 | - | - | - |
| Equity related contracts: | | | | |
| - Less than one year | 1,162,877 | 13,679 | 84,297 | 16,859 |
| - Over one year to less than five years | 1,399,288 | 20,214 | 134,176 | 26,835 |
| - Over five years | 140,538 | 685 | 14,739 | 2,948 |
| | 140,001,374 | 1,320,144 | 17,268,090 | 12,817,196 |
| | | Note 39 | | |

^ The foreign exchange and equity related contracts, interest/profit rate related contracts, gold and other precious metals 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/profit rates and commodities price) of the underlying instruments. The table above shows the Group's derivative financial instruments at the statement of financial position date. The underlying principal amount of these derivative financial instruments and their corresponding gross positive (derivative financial asset) fair values at the statement of financial position date are shown above.

* The credit equivalent and risk weighted amounts are computed using credit conversion factors and risk weighting rules as per Bank Negara Malaysia guidelines. The credit conversion factors and risk weighting rules for the Bank were based on the guidelines of the Capital Adequacy Framework on the Standardised Approach. The credit conversion factors and risk weighting rules for HSBC Amanah Malaysia Berhad were based on the Basel II CAFIB.

Of the amounts included in the Commitment and Contingencies balances above, none relate to the RPSIA2 arrangement (refer Note 10(i) for more details).

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**38 Commitments and Contingencies (Cont'd)**

The table below shows the contracts or underlying principal amounts, positive fair value of derivative contracts, credit equivalent amounts and risk weighted amounts of unmatured off-balance sheet transactions at the statement of financial position date. The underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk.

| 31 December 2014 | Bank | | | |
|---|---|---|---|---|
| | Credit Principal amount RM'000 | Positive fair value of derivative contracts^ RM'000 | Credit equivalent amount* RM'000 | Risk weighted amount* RM'000 |
| Direct credit substitutes | 1,556,077 | - | 1,556,077 | 1,370,266 |
| Transaction-related contingent items | 6,435,174 | - | 3,217,587 | 2,523,191 |
| Short-term self-liquidating trade-related contingencies | 335,394 | - | 67,079 | 59,376 |
| Irrevocable commitments to extend credit: | | | | |
| - Maturity not exceeding one year | 13,011,194 | - | 2,602,239 | 2,381,215 |
| - Maturity exceeding one year | 6,640,810 | - | 3,320,405 | 2,848,654 |
| Unutilised credit card lines | 6,603,881 | - | 1,320,776 | 990,582 |
| Foreign exchange related contracts: | | | | |
| - Less than one year | 41,875,669 | 877,447 | 1,507,112 | 830,287 |
| - Over one year to less than five years | 9,513,565 | 566,537 | 1,242,873 | 520,639 |
| - Over five years | 3,354,844 | 171,843 | 528,333 | 264,683 |
| Interest rate related contracts: | | | | |
| - Less than one year | 8,820,160 | 13,435 | 24,330 | 9,359 |
| - Over one year to less than five years | 30,962,201 | 138,049 | 904,896 | 325,418 |
| - Over five years | 2,568,230 | 29,378 | 217,844 | 90,586 |
| Gold and other precious metals contracts: | | | | |
| - Less than one year | 11,978 | 20 | - | - |
| Equity related contracts: | | | | |
| - Less than one year | 546,306 | 2,113 | 37,976 | 11,193 |
| - Over one year to less than five years | 3,356,942 | 32,581 | 297,729 | 81,664 |
| | 135,592,425 | 1,831,403 | 16,845,256 | 12,307,113 |
| | | Note 39 | | |

^ The foreign exchange and equity related contracts, interest rate related contracts, gold and other precious metals 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 commodities price) of the underlying instruments. The table above shows the Bank's derivative financial instruments at the statement of financial position date. The underlying principal amount of these derivative financial instruments and their corresponding gross positive (derivative financial asset) fair values at the statement of financial position date are shown above.

* The credit equivalent and risk weighted amounts are computed using credit conversion factors and risk weighting rules as per Bank Negara Malaysia guidelines. The credit conversion factors and risk weighting rules were based on the guidelines of the Capital Adequacy Framework on the Standardised Approach.

Of the amounts included in the Commitment and Contingencies balances above, none relate to the RPSIA2 arrangement (refer Note 10(i) for more details).

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**38 Commitments and Contingencies (Cont'd)**

The table below shows the contracts or underlying principal amounts, positive fair value of derivative contracts, credit equivalent amounts and risk weighted amounts of unmatured off-balance sheet transactions at the statement of financial position date. The underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk.

| **31 December 2013** | Bank | | | |
|---|---|---|---|---|
| | Credit Principal amount RM'000 | Positive fair value of derivative contracts^ RM'000 | Credit equivalent amount* RM'000 | Risk weighted amount* RM'000 |
| Direct credit substitutes | 1,971,835 | - | 1,971,835 | 1,772,082 |
| Transaction-related contingent items | 4,659,536 | - | 2,329,768 | 1,831,314 |
| Short-term self-liquidating trade-related contingencies | 315,459 | - | 63,092 | 52,402 |
| Irrevocable commitments to extend credit: | | | | |
| - Maturity not exceeding one year | 12,015,264 | - | 2,403,053 | 2,096,693 |
| - Maturity exceeding one year | 6,248,092 | - | 3,124,046 | 2,581,501 |
| Unutilised credit card lines | 6,467,160 | - | 1,293,432 | 970,074 |
| Foreign exchange related contracts: | | | | |
| - Less than one year | 40,500,738 | 486,226 | 1,108,716 | 575,166 |
| - Over one year to less than five years | 9,510,501 | 385,096 | 1,081,810 | 547,580 |
| - Over five years | 2,293,105 | 122,468 | 361,951 | 202,525 |
| Interest rate related contracts: | | | | |
| - Less than one year | 12,659,151 | 30,226 | 49,872 | 15,123 |
| - Over one year to less than five years | 33,893,539 | 251,732 | 1,076,624 | 375,693 |
| - Over five years | 3,731,860 | 70,429 | 344,401 | 128,387 |
| Gold and other precious metals contracts: | | | | |
| - Less than one year | 60,712 | - | - | - |
| Equity related contracts: | | | | |
| - Less than one year | 1,675,863 | 39,812 | 141,527 | 46,660 |
| - Over one year to less than five years | 1,964,862 | 26,651 | 184,325 | 54,404 |
| - Over five years | 140,538 | 685 | 14,739 | 2,948 |
| | 138,108,215 | 1,413,325 | 15,549,191 | 11,252,552 |
| | | Note 39 | | |

^ The foreign exchange and equity related contracts, interest rate related contracts, gold and other precious metals 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 commodities price) of the underlying instruments. The table above shows the Bank's derivative financial instruments at the statement of financial position date. The underlying principal amount of these derivative financial instruments and their corresponding gross positive ( derivative financial asset ) fair values at the statement of financial position date are shown above.

* The credit equivalent and risk weighted amounts are computed using credit conversion factors and risk weighting rules as per Bank Negara Malaysia guidelines. The credit conversion factors and risk weighting rules were based on the guidelines of the Capital Adequacy Framework on the Standardised Approach.

Of the amounts included in the Commitment and Contingencies balances above, none relate to the RPSIA2 arrangement (refer Note 10(i) for more details).

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 39 Derivative Financial Instruments

Details of derivative financial instruments outstanding are as follows:

i) Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts:

| | Contract / Notional Amount | | | | Positive Fair Value | | | | Negative Fair Value | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Group** | **Up to 1 Year** | **> 1 - 5 Years** | **> 5 Years** | **Total** | **Up to 1 Year** | **> 1 - 5 Years** | **> 5 Years** | **Total** | **Up to 1 Year** | **> 1 - 5 Years** | **> 5 Years** | **Total** |
| **At 31 December 2014** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Trading derivatives:** | | | | | | | | | | | | |
| Foreign exchange contracts | | | | | | | | | | | | |
| - Forwards | **37,403,278** | **545,277** | **-** | **37,948,555** | **708,822** | **19,763** | **-** | **728,585** | **636,207** | **5,986** | **-** | **642,193** |
| - Swaps | **3,263,913** | **8,690,296** | **3,091,809** | **15,046,018** | **147,588** | **539,932** | **168,296** | **855,816** | **136,946** | **462,798** | **121,306** | **721,050** |
| - Options | **840,536** | **182,692** | **-** | **1,023,228** | **25,012** | **12,620** | **-** | **37,632** | **5,490** | **-** | **-** | **5,490** |
| Interest/profit rate related contracts | | | | | | | | | | | | |
| - Options | **100,000** | **661,623** | **-** | **761,623** | **-** | **14,111** | **-** | **14,111** | **-** | **5,753** | **-** | **5,753** |
| - Swaps | **8,420,161** | **26,314,318** | **2,568,230** | **37,302,709** | **8,212** | **94,342** | **33,132** | **135,686** | **12,195** | **114,699** | **37,326** | **164,220** |
| Equity related contracts | | | | | | | | | | | | |
| - Options | **491,934** | **2,368,048** | **-** | **2,859,982** | **2,581** | **6,584** | **-** | **9,165** | **22,110** | **45,512** | **-** | **67,622** |
| Precious metal contracts | | | | | | | | | | | | |
| - Options | **11,978** | **-** | **-** | **11,978** | **20** | **-** | **-** | **20** | **47** | **-** | **-** | **47** |
| Sub- total | **50,531,800** | **38,762,254** | **5,660,039** | **94,954,093** | **892,235** | **687,352** | **201,428** | **1,781,015** | **812,995** | **634,748** | **158,632** | **1,606,375** |
| **Hedging Derivatives:** | | | | | | | | | | | | |
| **Fair Value Hedge** | | | | | | | | | | | | |
| Interest/profit rate related contracts | | | | | | | | | | | | |
| - Swaps | **340,000** | **1,595,000** | **-** | **1,935,000** | **1,752** | **16,934** | **-** | **18,686** | **-** | **-** | **-** | **-** |
| Sub- total | **340,000** | **1,595,000** | **-** | **1,935,000** | **1,752** | **16,934** | **-** | **18,686** | **-** | **-** | **-** | **-** |
| **Total** | **50,871,800** | **40,357,254** | **5,660,039** | **96,889,093** | **893,987** | **704,286** | **201,428** | **1,799,701** | **812,995** | **634,748** | **158,632** | **1,606,375** |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 39 Derivative Financial Instruments (Cont'd)

Details of derivative financial instruments outstanding are as follows (cont'd):

i) Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts (cont'd):

| | Contract / Notional Amount | | | | Positive Fair Value | | | | Negative Fair Value | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Group** | **Up to 1 Year** | **> 1 - 5 Years** | **> 5 Years** | **Total** | **Up to 1 Year** | **> 1 - 5 Years** | **> 5 Years** | **Total** | **Up to 1 Year** | **> 1 - 5 Years** | **> 5 Years** | **Total** |
| At 31 December 2013 | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Trading derivatives:** | | | | | | | | | | | | |
| Foreign exchange contracts | | | | | | | | | | | | |
| - Forwards | 34,691,221 | 495,042 | - | 35,186,263 | 338,108 | 10,808 | - | 348,916 | 295,463 | 10,107 | - | 305,570 |
| - Swaps | 7,278,852 | 8,161,745 | 245,589 | 15,686,186 | 118,016 | 381,010 | 117,877 | 616,903 | 118,930 | 254,959 | 80,429 | 454,318 |
| - Options | 1,330,507 | 4,869 | - | 1,335,376 | 27,850 | 1,475 | - | 29,325 | 18,687 | 7 | - | 18,694 |
| Interest/profit rate related contracts | | | | | | | | | | | | |
| - Future | - | - | - | - | - | - | - | - | - | - | - | - |
| - Options | 513,950 | 1,064,181 | 30,000 | 1,608,131 | - | 14,680 | - | 14,680 | 2,731 | 2,669 | - | 5,400 |
| - Swaps | 11,713,678 | 28,662,659 | 3,976,861 | 44,353,198 | 29,545 | 153,920 | 70,087 | 253,552 | 32,937 | 173,833 | 61,147 | 267,917 |
| Equity related contracts | | | | | | | | | | | | |
| - Options | 1,162,877 | 1,399,288 | 140,538 | 2,702,703 | 13,723 | 20,170 | 685 | 34,578 | 36,726 | 9,724 | - | 46,450 |
| Precious metal contracts | | | | | | | | | | | | |
| - Options | 60,712 | - | - | 60,712 | - | - | - | - | 104 | - | - | 104 |
| Sub- total | 56,751,797 | 39,787,784 | 4,392,988 | 100,932,569 | 527,242 | 582,063 | 188,649 | 1,297,954 | 505,578 | 451,299 | 141,576 | 1,098,453 |
| **Hedging Derivatives:** | | | | | | | | | | | | |
| **Fair Value Hedge** | | | | | | | | | | | | |
| Interest/profit rate related contracts | | | | | | | | | | | | |
| - Swaps | 355,000 | 1,865,000 | - | 2,220,000 | 543 | 21,577 | - | 22,120 | - | - | - | - |
| **Cash Flow Hedge** | | | | | | | | | | | | |
| Interest/profit rate related contracts | | | | | | | | | | | | |
| - Swaps | 60,000 | - | - | 60,000 | 70 | - | - | 70 | - | - | - | - |
| Sub- total | 415,000 | 1,865,000 | - | 2,280,000 | 613 | 21,577 | - | 22,190 | - | - | - | - |
| **Total** | 57,166,797 | 41,652,784 | 4,392,988 | 103,212,569 | 527,855 | 603,640 | 188,649 | 1,320,144 | 505,578 | 451,299 | 141,576 | 1,098,453 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 39 Derivative Financial Instruments (Cont'd)

Details of derivative financial instruments outstanding are as follows (cont'd):

i) Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts (cont'd):

| Bank | Contract / Notional Amount | | | | Positive Fair Value | | | | Negative Fair Value | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **At 31 December 2014** | **Up to 1 Year RM'000** | **> 1 - 5 Years RM'000** | **> 5 Years RM'000** | **Total RM'000** | **Up to 1 Year RM'000** | **> 1 - 5 Years RM'000** | **> 5 Years RM'000** | **Total RM'000** | **Up to 1 Year RM'000** | **> 1 - 5 Years RM'000** | **> 5 Years RM'000** | **Total RM'000** |
| **Trading derivatives:** | | | | | | | | | | | | |
| Foreign exchange contracts | | | | | | | | | | | | |
| - Forwards | 38,112,437 | 545,277 | - | 38,657,714 | 708,075 | 19,763 | - | 727,838 | 650,580 | 5,986 | - | 656,566 |
| - Swaps | 3,263,914 | 8,690,295 | 3,091,809 | 15,046,018 | 147,588 | 534,150 | 168,296 | 850,034 | 136,946 | 462,798 | 121,306 | 721,050 |
| - Options | 857,654 | 182,692 | - | 1,040,346 | 25,335 | 12,620 | - | 37,955 | 7,452 | - | - | 7,452 |
| Interest rate related contracts | | | | | | | | | | | | |
| - Options | 100,000 | 1,037,884 | - | 1,137,884 | - | 20,742 | - | 20,742 | - | 5,753 | - | 5,753 |
| - Swaps | 8,450,159 | 28,259,318 | 2,568,230 | 39,277,707 | 8,213 | 100,089 | 33,132 | 141,434 | 12,207 | 121,932 | 37,326 | 171,465 |
| Equity related contracts | | | | | | | | | | | | |
| - Options | 562,740 | 3,340,508 | - | 3,903,248 | 4,891 | 29,803 | - | 34,694 | 23,549 | 48,420 | - | 71,969 |
| Precious metal contracts | | | | | | | | | | | | |
| - Options | 11,978 | - | - | 11,978 | 20 | - | - | 20 | 47 | - | - | 47 |
| Sub- total | 51,358,882 | 42,055,974 | 5,660,039 | 99,074,895 | 894,122 | 717,167 | 201,428 | 1,812,717 | 830,781 | 644,889 | 158,632 | 1,634,302 |
| **Hedging Derivatives:** | | | | | | | | | | | | |
| **Fair Value Hedge** | | | | | | | | | | | | |
| Interest rate related contracts | | | | | | | | | | | | |
| - Swaps | 340,000 | 1,595,000 | - | 1,935,000 | 1,752 | 16,934 | - | 18,686 | - | - | - | - |
| Sub- total | 340,000 | 1,595,000 | - | 1,935,000 | 1,752 | 16,934 | - | 18,686 | - | - | - | - |
| **Total** | 51,698,882 | 43,650,974 | 5,660,039 | 101,009,895 | 895,874 | 734,101 | 201,428 | 1,831,403 | 830,781 | 644,889 | 158,632 | 1,634,302 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**39 Derivative Financial Instruments (Cont'd)**

Details of derivative financial instruments outstanding are as follows (cont'd):

i) Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts (cont'd):

| | Contract / Notional Amount | | | | Positive Fair Value | | | | Negative Fair Value | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Bank** | **Up to 1 Year** | **> 1 - 5 Years** | **> 5 Years** | **Total** | **Up to 1 Year** | **> 1 - 5 Years** | **> 5 Years** | **Total** | **Up to 1 Year** | **> 1 - 5 Years** | **> 5 Years** | **Total** |
| At 31 December 2013 | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Trading derivatives:** | | | | | | | | | | | | |
| Foreign exchange contracts | | | | | | | | | | | | |
| - Forwards | 34,766,133 | 495,042 | - | 35,261,175 | 337,534 | 10,808 | - | 348,342 | 295,331 | 10,107 | - | 305,438 |
| - Swaps | 7,278,852 | 8,161,745 | 245,589 | 15,686,186 | 118,016 | 381,010 | 117,097 | 616,123 | 118,930 | 254,959 | 80,429 | 454,318 |
| - Options | 1,352,114 | 4,869 | - | 1,356,983 | 27,850 | 1,475 | - | 29,325 | 21,828 | 7 | - | 21,835 |
| Interest rate related contracts | | | | | | | | | | | | |
| - Options | 513,950 | 1,733,903 | 30,000 | 2,277,853 | - | 73,488 | - | 73,488 | 2,731 | 53,699 | - | 56,430 |
| - Swaps | 11,812,177 | 29,937,659 | 3,976,861 | 45,726,697 | 29,614 | 157,008 | 70,087 | 256,709 | 33,296 | 175,191 | 62,755 | 271,242 |
| Equity related contracts | | | | | | | | | | | | |
| - Options | 1,675,863 | 1,964,862 | 140,538 | 3,781,263 | 39,812 | 26,651 | 685 | 67,148 | 36,726 | 13,974 | - | 50,700 |
| Precious metal contracts | | | | | | | | | | | | |
| - Options | 60,712 | - | - | 60,712 | - | - | - | - | 104 | - | - | 104 |
| Sub- total | 57,459,801 | 42,298,080 | 4,392,988 | 104,150,869 | 552,826 | 650,440 | 187,869 | 1,391,135 | 508,946 | 507,937 | 143,184 | 1,160,067 |
| **Hedging Derivatives:** | | | | | | | | | | | | |
| **Fair Value Hedge** | | | | | | | | | | | | |
| Interest rate related contracts | | | | | | | | | | | | |
| - Swaps | 355,000 | 1,865,000 | - | 2,220,000 | 543 | 21,577 | - | 22,120 | - | - | - | - |
| **Cash Flow Hedge** | | | | | | | | | | | | |
| Interest rate related contracts | | | | | | | | | | | | |
| - Swaps | 60,000 | - | - | 60,000 | 70 | - | - | 70 | - | - | - | - |
| Sub- total | 415,000 | 1,865,000 | - | 2,280,000 | 613 | 21,577 | - | 22,190 | - | - | - | - |
| **Total** | 57,874,801 | 44,163,080 | 4,392,988 | 106,430,869 | 553,439 | 672,017 | 187,869 | 1,413,325 | 508,946 | 507,937 | 143,184 | 1,160,067 |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 40 Interest/ Profit Rate Risk

The Group and the Bank are exposed to various risks associated with the effects of fluctuation in the prevailing level of market interest/profit rates on its financial position and cash flows. The following tables summarise the Group and the Bank's exposure to interest/profit 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.

| Group 31 December 2014 | Non-trading book: 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/ profit sensitive RM'000 | Trading book RM'000 | Total RM'000 | Effective interest/ profit rate % |
|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | |
| Cash and short term funds | 7,427,079 | - | - | - | - | 411,978 | - | 7,839,057 | 2.83 |
| Securities purchased under resale agreements | 2,265,607 | - | - | - | - | - | - | 2,265,607 | 3.24 |
| Deposits and placements with banks and other financial institutions | - | 3,109,649 | - | - | - | - | - | 3,109,649 | 2.56 |
| Financial assets held-for-trading | - | - | - | - | - | - | 2,947,082 | 2,947,082 | 3.58 |
| Financial investments available-for-sale | 1,237,506 | 4,482,313 | 6,509,356 | 4,651,706 | 205,700 | 16,908 | - | 17,103,489 | 3.40 |
| Loans, advances and financing | | | | | | | | | |
| - performing | 39,766,486 | 2,347,792 | 545,238 | 1,081,556 | 232,102 | 916,627 | - | 44,889,801 | 5.04 |
| - impaired * | - | - | - | - | - | 370,896 | - | 370,896 | - |
| Derivative financial assets | - | - | - | - | - | - | 1,799,701 | 1,799,701 | - |
| Others | - | - | - | - | - | 2,287,061 | 384,560 | 2,671,621 | - |
| **Total Assets** | 50,696,678 | 9,939,754 | 7,054,594 | 5,733,262 | 437,802 | 4,003,470 | 5,131,343 | 82,996,903 | |
| **LIABILITIES AND EQUITY** | | | | | | | | | |
| Deposits from customers | 30,160,555 | 5,943,491 | 8,729,106 | 355,654 | - | 11,281,780 | 4,837,647 | 61,308,233 | 2.08 |
| Deposits and placements from banks and other financial institutions | 7,185,726 | 750,544 | 1,775 | 340,914 | - | - | - | 8,278,959 | 1.13 |
| Bills and acceptances payable | - | - | - | - | - | 426,346 | - | 426,346 | - |
| Subordinated liabilities | - | - | - | 503,746 | 771,636 | - | - | 1,275,382 | 4.23 |
| Multi-Currency Sukuk Programme | - | - | - | 1,001,854 | - | - | - | 1,001,854 | 3.98 |
| Derivative financial liabilities | - | - | - | - | - | - | 1,606,375 | 1,606,375 | - |
| Others | - | - | - | - | - | 1,419,535 | 673,165 | 2,092,700 | - |
| **Total Liabilities** | 37,346,281 | 6,694,035 | 8,730,881 | 2,202,168 | 771,636 | 13,127,661 | 7,117,187 | 75,989,849 | |
| **Equity** | - | - | - | - | - | 7,007,054 | - | 7,007,054 | |
| **Total Liabilities and Equity** | 37,346,281 | 6,694,035 | 8,730,881 | 2,202,168 | 771,636 | 20,134,715 | 7,117,187 | 82,996,903 | |
| On-balance sheet interest/profit sensitivity gap | 13,350,397 | 3,245,719 | (1,676,287) | 3,531,094 | (333,834) | (16,131,245) | (1,985,844) | - | |
| Off-balance sheet interest/profit sensitivity gap | | | | | | | | | |
| Interest/profit rate contracts | | | | | | | | | |
| - futures | - | - | - | - | - | - | - | - | |
| - options | (58,880) | (119,158) | 100,000 | 454,299 | (376,261) | - | - | - | |
| - swaps | 211,083 | (1,695,072) | 1,029,587 | 822,252 | 187,902 | - | - | 555,752 | |
| **Total interest/profit sensitivity gap** | 13,502,600 | 1,431,489 | (546,700) | 4,807,645 | (522,193) | (16,131,245) | (1,985,844) | 555,752 | |

* This is arrived at after deducting individual impairment allowance and collective impairment allowance (impaired portion only) from impaired loans/financing.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 40 Interest/ Profit Rate Risk (Cont'd)

| Group<br>31 December 2013 | Non-trading book<br>Up to<br>1 month<br>RM'000 | <br>>1 - 3<br>months<br>RM'000 | <br>>3 - 12<br>months<br>RM'000 | <br>1 - 5<br>years<br>RM'000 | <br>Over 5<br>years<br>RM'000 | <br>Non-interest/<br>profit sensitive<br>RM'000 | Trading<br>book<br>RM'000 | Total<br>RM'000 | Effective<br>interest/<br>profit rate<br>% |
|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | |
| Cash and short term funds | 14,086,927 | - | - | - | - | 1,367,580 | - | 15,454,507 | 2.91 |
| Securities purchased under resale agreements | 2,077,398 | 799,872 | - | - | - | - | - | 2,877,270 | 3.02 |
| Deposits and placements with banks and other financial institutions | 163,950 | 3,840,671 | 6,719 | - | - | - | - | 4,011,340 | 2.82 |
| Financial assets held-for-trading | - | - | - | - | - | - | 2,333,390 | 2,333,390 | 3.20 |
| Financial investments available-for-sale | 424,360 | 1,057,765 | 1,519,334 | 3,319,192 | 162,043 | 16,907 | - | 6,499,601 | 3.26 |
| Loans, advances and financing | | | | | | | | | |
| - performing | 39,360,228 | 1,642,225 | 701,060 | 1,227,257 | 249,292 | 1,092,418 | - | 44,272,480 | 4.86 |
| - impaired * | - | - | - | - | - | 387,424 | - | 387,424 | - |
| Derivative financial assets | - | - | - | - | - | - | 1,320,144 | 1,320,144 | - |
| Others | - | - | - | - | - | 2,482,263 | 196,280 | 2,678,543 | - |
| **Total Assets** | 56,112,863 | 7,340,533 | 2,227,113 | 4,546,449 | 411,335 | 5,346,592 | 3,849,814 | 79,834,699 | |
| **LIABILITIES AND EQUITY** | | | | | | | | | |
| Deposits from customers | 30,042,874 | 5,889,095 | 7,612,118 | 154,079 | - | 11,458,825 | 4,757,428 | 59,914,419 | 2.03 |
| Deposits and placements from banks and other financial institutions | 4,099,361 | 413,937 | 2,127,831 | 2,400 | 300 | 1,653,999 | - | 8,297,828 | 1.35 |
| Bills and acceptances payable | 3,364 | 902 | - | - | - | 902,329 | - | 906,595 | 2.35 |
| Subordinated liabilities | - | - | - | 500,000 | 505,071 | - | - | 1,005,071 | 4.70 |
| Multi-Currency Sukuk Programme | - | - | - | 500,000 | - | - | - | 500,000 | 3.75 |
| Derivative financial liabilities | - | - | - | - | - | - | 1,098,453 | 1,098,453 | - |
| Others | - | - | - | - | - | 1,524,543 | 148,657 | 1,673,200 | - |
| **Total Liabilities** | 34,145,599 | 6,303,934 | 9,739,949 | 1,156,479 | 505,371 | 15,539,696 | 6,004,538 | 73,395,566 | |
| **Equity** | - | - | - | - | - | 6,439,133 | - | 6,439,133 | |
| **Total Liabilities and Equity** | 34,145,599 | 6,303,934 | 9,739,949 | 1,156,479 | 505,371 | 21,978,829 | 6,004,538 | 79,834,699 | |
| On-balance sheet interest/profit sensitivity gap | 21,967,264 | 1,036,599 | (7,512,836) | 3,389,970 | (94,036) | (16,632,237) | (2,154,724) | - | |
| Off-balance sheet interest/profit sensitivity gap | | | | | | | | | |
| Interest/profit rate contracts | | | | | | | | | |
| - futures | - | - | - | - | - | - | - | - | |
| - options | (421,921) | (622,645) | 350,000 | 390,100 | 304,466 | - | - | - | |
| - swaps | 2,407,426 | (2,501,060) | (1,313,650) | 1,322,345 | 214,199 | - | - | 129,260 | |
| **Total interest/profit sensitivity gap** | 23,952,769 | (2,087,106) | (8,476,486) | 5,102,415 | 424,629 | (16,632,237) | (2,154,724) | 129,260 | |

* This is arrived at after deducting individual impairment allowance and collective impairment allowance (impaired portion only) from impaired loans/financing.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 40 Interest/ Profit Rate Risk (Cont'd)

| Bank<br>31 December 2014 | Non-trading book<br>Up to<br>1 month<br>RM'000 | >1 - 3<br>months<br>RM'000 | >3 - 12<br>months<br>RM'000 | 1 - 5<br>years<br>RM'000 | Over 5<br>years<br>RM'000 | Non-interest<br>sensitive<br>RM'000 | Trading<br>book<br>RM'000 | Total<br>RM'000 | Effective<br>interest<br>rate<br>% |
|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | |
| Cash and short term funds | 7,836,916 | - | - | - | - | 241,044 | - | 8,077,960 | 2.80 |
| Securities purchased under resale agreements | 2,265,607 | - | - | - | - | - | - | 2,265,607 | 3.24 |
| Deposits and placements with banks and other financial institutions | - | 2,936,713 | 1,039,650 | 532,623 | 271,636 | - | - | 4,780,622 | 2.60 |
| Financial assets held-for-trading | - | - | - | - | - | - | 2,927,027 | 2,927,027 | 3.58 |
| Financial investments available-for-sale | 1,237,506 | 2,424,258 | 5,753,885 | 3,329,909 | 205,700 | 16,908 | - | 12,968,166 | 3.44 |
| Loans, advances and financing | | | | | | | | | |
| - performing | 30,970,788 | 2,121,005 | 364,756 | 113,963 | 198,690 | 690,334 | - | 34,459,536 | 4.83 |
| - impaired* | - | - | - | - | - | 293,618 | - | 293,618 | - |
| Derivative financial assets | | | | | | | 1,831,403 | 1,831,403 | - |
| Others | - | - | - | - | - | 2,336,978 | 383,636 | 2,720,614 | - |
| **Total Assets** | 42,310,817 | 7,481,976 | 7,158,291 | 3,976,495 | 676,026 | 3,578,882 | 5,142,066 | 70,324,553 | |
| **LIABILITIES AND EQUITY** | | | | | | | | | |
| Deposits from customers | 24,724,312 | 4,368,296 | 7,336,799 | 315,176 | - | 10,538,270 | 3,049,220 | 50,332,073 | 2.02 |
| Deposits and placements from banks and other financial institutions | 7,166,083 | 750,544 | 1,775 | 340,914 | - | - | - | 8,259,316 | 0.72 |
| Bills and acceptances payable | - | - | - | - | - | 400,637 | - | 400,637 | - |
| Subordinated liabilities | - | - | - | 503,746 | 771,636 | - | - | 1,275,382 | 4.23 |
| Derivative financial liabilities | | | | | | | 1,634,302 | 1,634,302 | - |
| Others | - | - | - | - | - | 1,409,714 | 664,784 | 2,074,498 | - |
| **Total Liabilities** | 31,890,395 | 5,118,840 | 7,338,574 | 1,159,836 | 771,636 | 12,348,621 | 5,348,306 | 63,976,208 | |
| **Equity** | - | - | - | - | - | 6,348,345 | - | 6,348,345 | |
| **Total Liabilities and Equity** | 31,890,395 | 5,118,840 | 7,338,574 | 1,159,836 | 771,636 | 18,696,966 | 5,348,306 | 70,324,553 | |
| On-balance sheet interest sensitivity gap | 10,420,422 | 2,363,136 | (180,283) | 2,816,659 | (95,610) | (15,118,084) | (206,240) | - | |
| Off-balance sheet interest sensitivity gap | | | | | | | | | |
| Interest rate contracts | | | | | | | | | |
| - futures | - | - | - | - | - | - | - | - | |
| - options | (155,686) | (398,613) | 100,000 | 454,299 | - | - | - | - | |
| - swaps | 179,990 | (1,664,350) | 1,009,587 | 867,623 | 162,902 | - | - | 555,752 | |
| **Total interest sensitivity gap** | 10,444,726 | 300,173 | 929,304 | 4,138,581 | 67,292 | (15,118,084) | (206,240) | 555,752 | |

* This is arrived at after deducting individual impairment allowance and collective impairment allowance (impaired portion only) from impaired loans.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 40 Interest/ Profit Rate Risk (Cont'd)

| Bank 31 December 2013 | Non-trading book 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 | Trading book RM'000 | Total RM'000 | Effective interest rate % |
|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | |
| Cash and short term funds | 11,334,412 | - | - | - | - | 1,224,374 | - | 12,558,786 | 2.88 |
| Securities purchased under resale agreements | 2,077,398 | 799,872 | - | - | - | - | - | 2,877,270 | 3.02 |
| Deposits and placements with banks and other financial institutions | - | 3,990,671 | 1,048,804 | 163,950 | - | - | - | 5,203,425 | 2.82 |
| Financial assets held-for-trading | - | - | - | - | - | - | 2,243,731 | 2,243,731 | 3.20 |
| Financial investments available-for-sale | 424,360 | 1,012,745 | 990,503 | 2,571,821 | 142,259 | 16,907 | - | 5,158,595 | 3.33 |
| Loans, advances and financing | | | | | | | | | |
| - performing | 32,014,517 | 1,486,048 | 465,937 | 141,345 | 205,401 | 866,187 | - | 35,179,435 | 4.58 |
| - impaired* | - | - | - | - | - | 305,295 | - | 305,295 | - |
| Derivative financial assets | | | | | | | 1,413,325 | 1,413,325 | - |
| Others | - | - | - | - | - | 2,685,562 | 195,291 | 2,880,853 | - |
| **Total Assets** | 45,850,687 | 7,289,336 | 2,505,244 | 2,877,116 | 347,660 | 5,098,325 | 3,852,347 | 67,820,715 | |
| **LIABILITIES AND EQUITY** | | | | | | | | | |
| Deposits from customers | 24,668,342 | 4,309,578 | 6,259,718 | 112,970 | - | 10,621,489 | 2,911,779 | 48,883,876 | 1.91 |
| Deposits and placements from banks and other financial institutions | 4,099,227 | 413,937 | 2,127,831 | 2,400 | 300 | 1,627,184 | - | 8,270,879 | 1.05 |
| Bills and acceptances payable | 3,364 | 902 | - | - | - | 891,357 | - | 895,623 | 2.35 |
| Subordinated liabilities | - | - | - | 500,000 | 505,071 | - | - | 1,005,071 | 4.70 |
| Derivative financial liabilities | | | | | | | 1,160,067 | 1,160,067 | - |
| Others | - | - | - | - | - | 1,534,829 | 148,619 | 1,683,448 | - |
| **Total Liabilities** | 28,770,933 | 4,724,417 | 8,387,549 | 615,370 | 505,371 | 14,674,859 | 4,220,465 | 61,898,964 | |
| **Equity** | - | - | - | - | - | 5,921,751 | - | 5,921,751 | |
| **Total Liabilities and Equity** | 28,770,933 | 4,724,417 | 8,387,549 | 615,370 | 505,371 | 20,596,610 | 4,220,465 | 67,820,715 | |
| On-balance sheet interest sensitivity gap | 17,079,754 | 2,564,919 | (5,882,305) | 2,261,746 | (157,711) | (15,498,285) | (368,118) | - | |
| Off-balance sheet interest sensitivity gap | | | | | | | | | |
| Interest rate contracts | | | | | | | | | |
| - futures | - | - | - | - | - | - | - | - | |
| - options | (350,000) | (360,100) | 350,000 | 390,100 | (30,000) | - | - | - | |
| - swaps | 2,407,426 | (2,501,060) | (1,313,650) | 1,269,345 | 247,019 | - | - | 109,080 | |
| **Total interest sensitivity gap** | 19,137,180 | (296,241) | (6,845,955) | 3,921,191 | 59,308 | (15,498,285) | (368,118) | 109,080 | |

* This is arrived at after deducting individual impairment allowance and collective impairment allowance (impaired portion only) from impaired loans.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 41 Liquidity Risk

The following tables summarise the Group and the Bank's exposure to liquidity risk. The asset and liabilities at carrying amount are allocated to time bands by reference to the remaining contractual maturity and/or their behavioral profile.

| Group<br>31 December 2014 | Non-trading book<br>Up to<br>1 month<br>RM'000 | >1 - 3<br>months<br>RM'000 | >3 - 12<br>months<br>RM'000 | 1 - 5<br>years<br>RM'000 | Over 5<br>years<br>RM'000 | Non-specific<br>maturity<br>RM'000 | Trading<br>book<br>RM'000 | Total<br>RM'000 |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Cash and short term funds | 7,839,057 | - | - | - | - | - | - | 7,839,057 |
| Securities purchased under resale agreements | 2,265,607 | - | - | - | - | - | - | 2,265,607 |
| Deposits and placements with banks and other financial institutions | - | 3,109,649 | - | - | - | - | - | 3,109,649 |
| Financial assets held-for-trading | - | - | - | - | - | - | 2,947,082 | 2,947,082 |
| Financial investments available-for-sale | 1,237,506 | 4,482,313 | 6,509,356 | 4,651,706 | 205,700 | 16,908 | - | 17,103,489 |
| Loans, advances and financing | 10,569,587 | 6,155,083 | 1,665,103 | 5,008,692 | 21,862,232 | - | - | 45,260,697 |
| Derivative financial assets | - | - | - | - | - | - | 1,799,701 | 1,799,701 |
| Others | 26,885 | 8,565 | 35,576 | 44,067 | 1,874 | 2,170,094 | 384,560 | 2,671,621 |
| **Total Assets** | 21,938,642 | 13,755,610 | 8,210,035 | 9,704,465 | 22,069,806 | 2,187,002 | 5,131,343 | 82,996,903 |
| **LIABILITIES AND EQUITY** | | | | | | | | |
| Deposits from customers | 41,442,335 | 5,943,491 | 8,729,106 | 355,654 | - | - | 4,837,647 | 61,308,233 |
| Deposits and placements from banks and other financial institutions | 7,185,726 | 750,544 | 1,775 | 340,914 | - | - | - | 8,278,959 |
| Bills and acceptances payable | 426,346 | - | - | - | - | - | - | 426,346 |
| Multi-Currency Sukuk Programme | - | - | - | 1,001,854 | - | - | - | 1,001,854 |
| Subordinated liabilities | - | - | - | 503,746 | 771,636 | - | - | 1,275,382 |
| Derivative financial liabilities | - | - | - | - | - | - | 1,606,375 | 1,606,375 |
| Others | 94,966 | 64,753 | 93,501 | 24,539 | 65,958 | 1,075,818 | 673,165 | 2,092,700 |
| **Total Liabilities** | 49,149,373 | 6,758,788 | 8,824,382 | 2,226,707 | 837,594 | 1,075,818 | 7,117,187 | 75,989,849 |
| **Equity** | - | - | - | - | - | 7,007,054 | - | 7,007,054 |
| **Total Liabilities and Equity** | 49,149,373 | 6,758,788 | 8,824,382 | 2,226,707 | 837,594 | 8,082,872 | 7,117,187 | 82,996,903 |
| **Net maturity mismatches** | (27,210,731) | 6,996,822 | (614,347) | 7,477,758 | 21,232,212 | (5,895,870) | - | - |
| **Off-balance sheet liabilities** | 37,016,632 | 21,973,423 | 26,871,186 | 45,462,280 | 7,117,820 | - | - | 138,441,341 |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

## 41 Liquidity Risk (Cont'd)

| Group 31 December 2013 | Non-trading book 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-specific maturity RM'000 | Trading book RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Cash and short term funds | 15,454,507 | - | - | - | - | - | - | 15,454,507 |
| Securities purchased under resale agreements | 2,077,398 | 799,872 | - | - | - | - | - | 2,877,270 |
| Deposits and placements with banks and other financial institutions | 163,950 | 3,840,671 | 6,719 | - | - | - | - | 4,011,340 |
| Financial assets held-for-trading | - | - | - | - | - | - | 2,333,390 | 2,333,390 |
| Financial investments available-for-sale | 424,360 | 1,057,765 | 1,519,334 | 3,319,192 | 162,043 | 16,907 | - | 6,499,601 |
| Loans, advances and financing | 10,634,367 | 5,926,007 | 2,398,894 | 4,631,186 | 21,069,451 | - | - | 44,659,904 |
| Derivative financial assets | - | - | - | - | - | - | 1,320,144 | 1,320,144 |
| Others | 27,767 | 76,901 | - | - | - | 2,377,595 | 196,280 | 2,678,543 |
| **Total Assets** | 28,782,349 | 11,701,216 | 3,924,947 | 7,950,378 | 21,231,494 | 2,394,502 | 3,849,814 | 79,834,699 |
| **LIABILITIES AND EQUITY** | | | | | | | | |
| Deposits from customers | 41,501,699 | 5,889,095 | 7,612,118 | 154,079 | - | - | 4,757,428 | 59,914,419 |
| Deposits and placements from banks and other financial institutions | 5,753,360 | 413,937 | 2,127,831 | 2,400 | 300 | - | - | 8,297,828 |
| Bills and acceptances payable | 905,693 | 902 | - | - | - | - | - | 906,595 |
| Recourse obligation on loans sold to Cagamas Berhad | - | - | - | - | - | - | - | - |
| Multi-Currency Sukuk Programme | - | - | - | 500,000 | - | - | - | 500,000 |
| Subordinated liabilities | - | - | - | 500,000 | 505,071 | - | - | 1,005,071 |
| Derivative financial liabilities | - | - | - | - | - | - | 1,098,453 | 1,098,453 |
| Others | 207,660 | 165,521 | 4,132 | 37,849 | - | 1,109,355 | 148,683 | 1,673,200 |
| **Total Liabilities** | 48,368,412 | 6,469,455 | 9,744,081 | 1,194,328 | 505,371 | 1,109,355 | 6,004,564 | 73,395,566 |
| **Equity** | - | - | - | - | - | 6,439,133 | - | 6,439,133 |
| **Total Liabilities and Equity** | 48,368,412 | 6,469,455 | 9,744,081 | 1,194,328 | 505,371 | 7,548,488 | 6,004,564 | 79,834,699 |
| **Net maturity mismatches** | (19,586,063) | 5,231,761 | (5,819,134) | 6,756,050 | 20,726,123 | (5,153,986) | (2,154,750) | - |
| **Off-balance sheet liabilities** | | | | | | | | |
| Commitments and Contingencies | 36,340,056 | 20,520,621 | 28,512,758 | 47,838,018 | 6,789,921 | - | - | 140,001,374 |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 41 Liquidity Risk (Cont'd)

| | Non-trading book | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Bank**<br>**31 December 2014** | **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-specific maturity RM'000** | **Trading book RM'000** | **Total RM'000** |
| **ASSETS** | | | | | | | | |
| Cash and short term funds | **8,077,960** | **-** | **-** | **-** | **-** | **-** | **-** | **8,077,960** |
| Securities purchased under resale agreements | **2,265,607** | **-** | **-** | **-** | **-** | **-** | **-** | **2,265,607** |
| Deposits and placements with banks and other financial institutions | **-** | **2,936,713** | **1,039,650** | **532,623** | **271,636** | **-** | **-** | **4,780,622** |
| Financial assets held-for-trading | **-** | **-** | **-** | **-** | **-** | **-** | **2,927,027** | **2,927,027** |
| Financial investments available-for-sale | **1,237,506** | **2,424,258** | **5,753,885** | **3,329,909** | **205,700** | **16,908** | **-** | **12,968,166** |
| Loans, advances and financing | **8,034,975** | **4,522,762** | **1,418,644** | **3,742,274** | **17,034,499** | **-** | **-** | **34,753,154** |
| Derivative financial assets | | | | | | | **1,831,403** | **1,831,403** |
| Others | **26,209** | **8,507** | **37,770** | **33,800** | **1,987** | **2,228,705** | **383,636** | **2,720,614** |
| **Total Assets** | **19,642,257** | **9,892,240** | **8,249,949** | **7,638,606** | **17,513,822** | **2,245,613** | **5,142,066** | **70,324,553** |
| **LIABILITIES AND EQUITY** | | | | | | | | |
| Deposits from customers | **35,262,582** | **4,368,296** | **7,336,799** | **315,176** | **-** | **-** | **3,049,220** | **50,332,073** |
| Deposits and placements from banks and other | | | | | | | **-** | |
| financial institutions | **7,166,083** | **750,544** | **1,775** | **340,914** | **-** | **-** | **-** | **8,259,316** |
| Bills and acceptances payable | **400,637** | **-** | **-** | **-** | **-** | **-** | **-** | **400,637** |
| Subordinated liabilities | **-** | **-** | **-** | **503,746** | **771,636** | **-** | **-** | **1,275,382** |
| Derivative financial liabilities | **-** | **-** | **-** | **-** | **-** | **-** | **1,634,302** | **1,634,302** |
| Others | **206,192** | **53,318** | **78,336** | **14,384** | **66,071** | **991,413** | **664,784** | **2,074,498** |
| **Total Liabilities** | **43,035,494** | **5,172,158** | **7,416,910** | **1,174,220** | **837,707** | **991,413** | **5,348,306** | **63,976,208** |
| **Equity** | **-** | **-** | **-** | **-** | **-** | **6,348,345** | **-** | **6,348,345** |
| **Total Liabilities and Equity** | **43,035,494** | **5,172,158** | **7,416,910** | **1,174,220** | **837,707** | **7,339,758** | **5,348,306** | **70,324,553** |
| **Net maturity mismatches** | **(23,393,237)** | **4,720,082** | **833,039** | **6,464,386** | **16,676,115** | **(5,094,145)** | **(206,240)** | **-** |
| **Off-balance sheet liabilities** | **34,268,741** | **21,537,391** | **25,657,694** | **47,199,643** | **6,928,956** | **-** | **-** | **135,592,425** |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 41 Liquidity Risk (Cont'd)

| Bank<br>31 December 2013 | Non-trading book<br>Up to<br>1 month<br>RM'000 | >1 - 3<br>months<br>RM'000 | >3 - 12<br>months<br>RM'000 | 1 - 5<br>years<br>RM'000 | Over 5<br>years<br>RM'000 | Non-specific<br>maturity<br>RM'000 | Trading<br>book<br>RM'000 | Total<br>RM'000 |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Cash and short term funds | 12,558,786 | - | - | - | - | - | - | 12,558,786 |
| Securities purchased under resale agreements | 2,077,398 | 799,872 | - | - | - | - | - | 2,877,270 |
| Deposits and placements with banks and other financial institutions | - | 3,990,671 | 1,048,804 | 163,950 | - | - | - | 5,203,425 |
| Financial assets held-for-trading | - | - | - | - | - | - | 2,243,731 | 2,243,731 |
| Financial investments available-for-sale | 424,360 | 1,012,745 | 990,503 | 2,571,821 | 142,259 | 16,907 | - | 5,158,595 |
| Loans, advances and financing | 8,675,625 | 4,485,971 | 2,096,592 | 3,402,582 | 16,823,959 | - | - | 35,484,730 |
| Derivative financial assets | | | | | | | 1,413,325 | 1,413,325 |
| Others | 23,963 | 72,024 | - | - | - | 2,589,575 | 195,291 | 2,880,853 |
| **Total Assets** | 23,760,132 | 10,361,283 | 4,135,899 | 6,138,353 | 16,966,218 | 2,606,482 | 3,852,347 | 67,820,715 |
| **LIABILITIES AND EQUITY** | | | | | | | | |
| Deposits from customers | 35,289,831 | 4,309,578 | 6,259,718 | 112,970 | - | - | 2,911,779 | 48,883,876 |
| Deposits and placements from banks and other financial institutions | 5,726,411 | 413,937 | 2,127,831 | 2,400 | 300 | - | -<br>- | 8,270,879 |
| Bills and acceptances payable | 894,721 | 902 | - | - | - | - | - | 895,623 |
| Subordinated liabilities | - | - | - | 500,000 | 505,071 | - | - | 1,005,071 |
| Derivative financial liabilities | - | - | - | - | - | - | 1,160,067 | 1,160,067 |
| Others | 189,293 | 275,486 | 4,132 | 35,354 | - | 1,030,564 | 148,619 | 1,683,448 |
| **Total Liabilities** | 42,100,256 | 4,999,903 | 8,391,681 | 650,724 | 505,371 | 1,030,564 | 4,220,465 | 61,898,964 |
| **Equity** | - | - | - | - | - | 5,921,751 | - | 5,921,751 |
| **Total Liabilities and Equity** | 42,100,256 | 4,999,903 | 8,391,681 | 650,724 | 505,371 | 6,952,315 | 4,220,465 | 67,820,715 |
| **Net maturity mismatches** | (18,340,124) | 5,361,380 | (4,255,782) | 5,487,629 | 16,460,847 | (4,345,833) | (368,118) | - |
| **Off-balance sheet liabilities** | | | | | | | | |
| Commitments and Contingencies | 34,283,762 | 19,904,905 | 28,089,223 | 49,040,404 | 6,789,921 | - | - | 138,108,215 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 42 Repurchase and Reverse Repurchase Transactions and Collateral Pledged/Accepted

In the normal course of business, the Group and the Bank sell assets to raise liabilities and accept assets for resale. Assets sold and received are mainly via repurchase agreements and reverse repurchase agreements. Collateral is accepted and pledged on derivative contracts, mainly in the form of cash.

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014** | 31 Dec 2013 | **31 Dec 2014** | 31 Dec 2013 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Carrying amount of assets and collateral pledged** | | | | |
| - Sold under repurchase agreements | **205,055** | 152,660 | **-** | - |
| - Collateral pledged on derivative contracts (ISDA*) | **536,499** | 109,216 | **536,499** | 109,216 |
| **Fair value of assets and collateral accepted** | | | | |
| - Securities bought under reverse repurchase agreement | **2,265,607** | 2,877,270 | **2,265,607** | 2,877,270 |
| - Securities sold under regulated short selling | **68,148** | 78,343 | **68,148** | 78,343 |
| - Collateral accepted on derivative contracts (ISDA*) | **435,205** | 276,654 | **435,205** | 276,654 |

* *ISDA: International Swaps and Derivatives Association*

## 43 Fair Values of Financial Assets and Liabilities not measured at fair value

The following table summarises the fair value of the financial assets and liabilities not measured at fair value that was carried on the balance sheet at 31 December.

| | *Group* | | | |
|---|---|---|---|---|
| | **31 Dec 2014 Carrying amount RM'000** | **31 Dec 2014 Fair Value RM'000** | 31 Dec 2013 Carrying amount RM'000 | 31 Dec 2013 Fair Value RM'000 |
| **Financial Assets** | | | | |
| Cash and short term funds | **7,839,057** | **7,839,057** | 15,454,507 | 15,454,507 |
| Securities purchased under resale agreements | **2,265,607** | **2,265,607** | 2,877,270 | 2,877,270 |
| Deposits and placements with banks and other financial institutions | **3,109,649** | **3,109,649** | 4,011,340 | 4,011,340 |
| Loans, advances and financing | **45,260,697** | **44,955,278** | 44,659,904 | 44,428,872 |
| **Financial Liabilities** | | | | |
| Deposits from customers | **61,308,233** | **61,244,404** | 59,914,419 | 60,007,732 |
| Deposits and placements from banks and other financial institutions | **8,278,959** | **8,252,966** | 8,297,828 | 8,276,715 |
| Bills and acceptances payable | **426,346** | **426,346** | 906,595 | 906,595 |
| Multi-Currency Sukuk Programme | **1,001,854** | **999,631** | 500,000 | 499,719 |
| Subordinated liabilities | **1,275,382** | **1,299,586** | 1,005,071 | 1,037,606 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 43 Fair Values of Financial Assets and Liabilities not measured at fair value (Cont'd)

The following table summarises the fair value of the financial assets and liabilities not measured at fair value that was carried on the statement of financial position at 31 December.

| | *Bank* | | | |
|---|---|---|---|---|
| | **31 Dec 2014 Carrying amount RM'000** | **31 Dec 2014 Fair Value RM'000** | 31 Dec 2013 Carrying amount RM'000 | 31 Dec 2013 Fair Value RM'000 |
| **Financial Assets** | | | | |
| Cash and short term funds | **8,077,960** | **8,077,960** | 12,558,786 | 12,558,786 |
| Securities purchased under resale agreements | **2,265,607** | **2,265,607** | 2,877,270 | 2,877,270 |
| Deposits and placements with banks and other financial institutions | **4,780,622** | **4,780,622** | 5,203,425 | 5,203,425 |
| Loans, advances and financing | **34,753,154** | **34,439,022** | 35,484,730 | 35,255,867 |
| **Financial Liabilities** | | | | |
| Deposits from customers | **50,332,073** | **50,300,623** | 48,883,876 | 49,005,875 |
| Deposits and placements from banks and other financial institutions | **8,259,316** | **8,259,253** | 8,270,879 | 8,270,875 |
| Bills and acceptances payable | **400,637** | **400,637** | 895,623 | 895,623 |
| Subordinated liabilities | **1,275,382** | **1,299,586** | 1,005,071 | 1,037,606 |

The methods and assumptions used in estimating the fair values of financial instruments other than those already mentioned in Note 3 g) 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 values due to their relatively short-term nature.

**Loans, advances and financing**
For personal and commercial loans and financing which mature or reprice after six months, fair value is principally estimated by discounting anticipated cash flows (including interest/profit at contractual rates). Performing loans/financing 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. The fair value of a loan reflects loan impairments at the balance sheet date. For impaired loans/financing, the fair value is the carrying value of the loans/financing, net of individual impairment allowance. Collective impairment allowance is deducted from the fair value of loans, advances and financing.

**Deposits from customers**
**Deposits and placements from banks and other financial institutions**

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. The fair value of a deposit repayable on demand is approximate by its carrying value.

**Subordinated liabilities**
**Multi-Currency Sukuk Programme**
The fair value of subordinated liabilities and the Multi-Currency Sukuk Programme were estimated based on discounted cash flows using rates currently offered for debt instruments of similar remaining maturities and credit grading.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**43 Fair Values of Financial Assets and Liabilities not measured at fair value (Cont'd)**

The following tables sets out the fair values of the financial assets and financial liabilities not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

| | | | Group | | |
|---|---|---|---|---|---|
| **31 December 2014**<br>**RM'000** | **Level 1** | **Level 2** | **Level 3** | **Total fair values** | **Total carrying amount** |
| **Financial Assets** | | | | | |
| Cash and short term funds | **-** | **-** | **7,839,057** | **7,839,057** | **7,839,057** |
| Securities purchased under resale agreements | **-** | **2,265,607** | - | **2,265,607** | **2,265,607** |
| Deposits and placements with banks and other financial institutions | **-** | **3,109,649** | - | **3,109,649** | **3,109,649** |
| Loans, advances and financing | **-** | **-** | **44,955,278** | **44,955,278** | **45,260,697** |
| **Financial Liabilities** | | | | | |
| Deposits from customers | **-** | **61,244,404** | - | **61,244,404** | **61,308,233** |
| Deposits and placements from banks and other financial institutions | **-** | **8,252,966** | - | **8,252,966** | **8,278,959** |
| Bills and acceptances payable | **-** | **426,346** | - | **426,346** | **426,346** |
| Multi-Currency Sukuk Programme | **-** | **999,631** | - | **999,631** | **1,001,854** |
| Subordinated liabilities | **-** | **1,299,586** | - | **1,299,586** | **1,275,382** |

| | | | Group | | |
|---|---|---|---|---|---|
| **31 December 2013**<br>**RM'000** | **Level 1** | **Level 2** | **Level 3** | **Total fair values** | **Total carrying amount** |
| **Financial Assets** | | | | | |
| Cash and short term funds | - | - | 15,454,507 | 15,454,507 | 15,454,507 |
| Securities purchased under resale agreements | - | 2,877,270 | - | 2,877,270 | 2,877,270 |
| Deposits and placements with banks and other financial institutions | - | 4,011,340 | - | 4,011,340 | 4,011,340 |
| Loans, advances and financing | - | - | 44,428,872 | 44,428,872 | 44,659,904 |
| **Financial Liabilities** | | | | | |
| Deposits from customers | - | 60,007,732 | - | 60,007,732 | 59,914,419 |
| Deposits and placements from banks and other financial institutions | - | 8,276,715 | - | 8,276,715 | 8,297,828 |
| Bills and acceptances payable | - | 906,595 | - | 906,595 | 906,595 |
| Multi-Currency Sukuk Programme | - | 499,719 | - | 499,719 | 500,000 |
| Subordinated liabilities | - | 1,037,606 | - | 1,037,606 | 1,005,071 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

| | | | Bank | | |
|---|---|---|---|---|---|
| **31 December 2014** | | | | | **Total** |
| | | | | **Total** | **carrying** |
| **RM'000** | **Level 1** | **Level 2** | **Level 3** | **fair values** | **amount** |
| **Financial Assets** | | | | | |
| Cash and short term funds | **-** | **-** | **8,077,960** | **8,077,960** | **8,077,960** |
| Securities purchased under resale agreements | **-** | **2,265,607** | - | **2,265,607** | **2,265,607** |
| Deposits and placements with banks and other financial institutions | **-** | **4,780,622** | - | **4,780,622** | **4,780,622** |
| Loans, advances and financing | **-** | **-** | **34,439,022** | **34,439,022** | **34,753,154** |
| **Financial Liabilities** | | | | | |
| Deposits from customers | **-** | **50,300,623** | - | **50,300,623** | **50,332,073** |
| Deposits and placements from banks and other financial institutions | **-** | **8,259,253** | - | **8,259,253** | **8,259,316** |
| Bills and acceptances payable | **-** | **-** | **400,637** | **400,637** | **400,637** |
| Subordinated liabilities | **-** | **1,299,586** | - | **1,299,586** | **1,275,382** |

| | | | Bank | | |
|---|---|---|---|---|---|
| **31 December 2013** | | | | | **Total** |
| | | | | **Total** | **carrying** |
| **RM'000** | **Level 1** | **Level 2** | **Level 3** | **fair values** | **amount** |
| **Financial Assets** | | | | | |
| Cash and short term funds | - | - | 12,558,786 | 12,558,786 | 12,558,786 |
| Securities purchased under resale agreements | - | 2,877,270 | - | 2,877,270 | 2,877,270 |
| Deposits and placements with banks and other financial institutions | - | 5,203,425 | - | 5,203,425 | 5,203,425 |
| Loans, advances and financing | - | - | 35,255,867 | 35,255,867 | 35,484,730 |
| **Financial Liabilities** | | | | | |
| Deposits from customers | - | 49,005,875 | - | 49,005,875 | 48,883,876 |
| Deposits and placements from banks and other financial institutions | - | 8,270,875 | - | 8,270,875 | 8,270,879 |
| Bills and acceptances payable | - | - | 895,623 | 895,623 | 895,623 |
| Subordinated liabilities | - | 1,037,606 | - | 1,037,606 | 1,005,071 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 44 Lease Commitments

The Group and the Bank 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 (if any) are as follows:

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014 RM'000** | 31 Dec 2013 RM'000 | **31 Dec 2014 RM'000** | 31 Dec 2013 RM'000 |
| Less than one year | **35,639** | 35,949 | **29,965** | 28,971 |
| Between one and three years | **25,234** | 34,044 | **20,391** | 30,654 |
| Between three and five years | **5** | 801 | **-** | 801 |
| | **60,878** | 70,794 | **50,356** | 60,426 |

## 45 Capital Commitments

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2014 RM'000** | 31 Dec 2013 RM'000 | **31 Dec 2014 RM'000** | 31 Dec 2013 RM'000 |
| Capital expenditure commitments: | | | | |
| <u>Property and equipment</u> | | | | |
| - Authorised and contracted , but not provided for | **3,334** | 1,019 | **3,131** | 926 |
| - Authorised but not contracted for | **1,607** | 33 | **1,607** | 33 |
| | **4,941** | 1,052 | **4,738** | 959 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 46 Equity-based Compensation

The Group and 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:

**Group**

| | **2014 Number ('000)** | **Weighted average option price £** | 2013 Number ('000) | Weighted average option price £ |
|---|---|---|---|---|
| Outstanding at 1 January | **1,612** | **6.91** | 1,612 | 6.91 |
| Outstanding at 31 December | **1,612** | **6.91** | 1,612 | 6.91 |
| Options vested at 31 December | **-** | | - | |

| | **2014 RM'000** | 2013 RM'000 |
|---|---|---|
| Compensation cost recognised during the year | **-** | - |

**Bank**

| | **2014 Number ('000)** | **Weighted average option price £** | 2013 Number ('000) | Weighted average option price £ |
|---|---|---|---|---|
| Outstanding at 1 January | **1,612** | **6.91** | 1,612 | 6.91 |
| Outstanding at 31 December | **1,612** | **6.91** | 1,612 | 6.91 |
| Options vested at 31 December | **-** | | - | |

| | **2014 RM'000** | 2013 RM'000 |
|---|---|---|
| Compensation cost recognised during the year | **-** | - |

The Group Share Option Plan ceased in 2005 and was 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 lapse.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**46 Equity-based Compensation (Cont'd)**

**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:

**Group**

| | **2014 Number ('000)** | **Weighted average exercise price £** | 2013 Number ('000) | Weighted average exercise price £ |
|---|---|---|---|---|
| Outstanding at 1 January | **2,752** | **4.85** | 3,280 | 4.76 |
| Granted in the year | **-** | **-** | - | - |
| Exercised in the year | **(1,451)** | **3.38** | (288) | 4.68 |
| Lapsed in the year | **(30)** | **4.13** | (240) | 3.89 |
| Outstanding at 31 December | **1,271** | **6.54** | 2,752 | 4.85 |
| Options vested at 31 December | **1,451** | | 288 | |

| | **2014 RM'000** | 2013 RM'000 |
|---|---|---|
| Compensation cost recognised during the year | **(566)** | 2,395 |

**Bank**

| | **2014 Number ('000)** | **Weighted average exercise price £** | 2013 Number ('000) | Weighted average exercise price £ |
|---|---|---|---|---|
| Outstanding at 1 January | **2,729** | **4.84** | 3,244 | 4.76 |
| Granted in the year | **-** | **-** | - | - |
| Exercised in the year | **(1,445)** | **3.38** | (282) | 4.69 |
| Lapsed in the year | **(29)** | **4.12** | (233) | 3.89 |
| Outstanding at 31 December | **1,255** | **6.54** | 2,729 | 4.84 |
| Options vested at 31 December | **1,445** | | 282 | |

| | **2014 RM'000** | 2013 RM'000 |
|---|---|---|
| Compensation cost recognised during the year | **(559)** | 2,401 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**46 Equity-based Compensation (Cont'd)**

**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.

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2014 Number ('000)** | 2013 Number ('000) | **2014 Number ('000)** | 2013 Number ('000) |
| Outstanding at 1 January | **4,217** | 2,508 | **4,200** | 2,495 |
| Additions during the year | **1,911** | 2,187 | **1,901** | 2,175 |
| Released in the year | **(326)** | (478) | **(312)** | (470) |
| Outstanding at 31 December | **5,802** | 4,217 | **5,789** | 4,200 |

| | **2014 RM'000** | 2013 RM'000 | **2014 RM'000** | 2013 RM'000 |
|---|---|---|---|---|
| Compensation cost recognised during the year | **15,087** | 10,982 | **14,410** | 10,598 |

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan is £6.82 (2013: £6.39). The closing price of the HSBC share at 31 December 2014 was £6.09 (2013: £6.62). The weighted average remaining vesting period as at 31 December 2014 was 2.47 years (2013: 2.46 years).

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**47 Comparative Figures**

Reclassification to conform to current year's presentation in the notes to the Financial Statements.

31 December 2013

a) **Loan/Financing Impairment Charges and Other Credit Risk Provisions**
*(of which the affected components are disclosed below) :*

| | Group | | Bank | |
|---|---|---|---|---|
| | RM'000 As restated | RM'000 As previously stated | RM'000 As restated | RM'000 As previously stated |
| Individual allowance for impairment | | | | |
| -Made during the year | 164,223 | 140,798 | 136,638 | 98,374 |
| -Written back | (116,104) | (92,679) | (94,120) | (55,856) |

b) **Other operating expenses**

| | Group | |
|---|---|---|
| | RM'000 As restated | RM'000 As previously stated |
| General administrative expenses | | |
| Intercompany expenses | 243,797 | 239,520 |

c) **Movements in allowances for impaired loans, advances and financing**
*(of which the affected components are disclosed below) :*

| | Group | | Bank | |
|---|---|---|---|---|
| | RM'000 As restated | RM'000 As previously stated | RM'000 As restated | RM'000 As previously stated |
| Individual allowance for impairment | | | | |
| -Made during the year | 164,223 | 140,798 | 136,638 | 98,374 |
| -Written back | (116,104) | (92,679) | (94,120) | (55,856) |

d) **Financial risk management**
*(of which the affected components are disclosed below) :*
Cash flows payable under financial liabilities by remaining contractual maturities

| Financial guarantee and similar contracts | Group | | Bank | |
|---|---|---|---|---|
| | RM'000 As restated | RM'000 As previously stated | RM'000 As restated | RM'000 As previously stated |
| On demand | 2,128,474 | 2,387,304 | 1,957,127 | 1,897,857 |
| Due within 3 months | 775,975 | 260,023 | 708,251 | 255,368 |
| Due between 3 months to 12 months | 1,118,872 | 250,616 | 581,766 | 235,698 |
| Due between 1 and 5 years | 2,378,202 | 719,192 | 2,006,637 | 678,031 |
| Due after 5 years | 488,022 | 155 | 488,022 | 155 |