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

FINANCIAL STATEMENTS – 31 DECEMBER 2018

Domiciled in Malaysia.
Registered Office:
10th Floor, North Tower,
2, Leboh Ampang,
50100 Kuala Lumpur

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
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HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
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BOARD OF DIRECTORS

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

Stuart Paterson Milne
Non-Independent Executive Director/Chief Executive Officer *(appointed on 24 May 2018)*

Mukhtar Malik Hussain
Non-Independent Executive Director

Lee Choo Hock
Independent Non-Executive Director

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

Choo Yoo Kwan @ Choo Yee Kwan
Independent Non-Executive Director

Peter Wong Tung Shun
Non-Independent Executive Director *(resigned on 16 March 2018)*

CORPORATE GOVERNANCE DISCLOSURES

The statement of corporate governance practices set out on pages 2 to 13 and the information referred to therein constitutes the Corporate Governance Report of HSBC Bank Malaysia Berhad (the Bank). As a banking institution licensed under the Financial Services Act 2013, the Bank complies with the corporate governance standards set out in the Bank Negara Malaysia (BNM) Policy Document on Corporation Governance (BNM Corporate Governance Policy).

Directors

The Directors serving as at the date of this report are set out below:

Tan Sri Dato' Tan Boon Seng @ Krishnan, 67
Independent Non-Executive Chairman
Member of the Audit Committee, Risk Committee and Nominations and Remuneration Committee
Appointed to the Board: April 2014
Independent Non-Executive Chairman since March 2017

Tan Sri Dato' Krishnan Tan is the first Independent Chairman appointed by 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.

He joined IJM Corporation Berhad 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 of IJM Corporation Berhad from 2011 to 2013.

He is currently the Deputy Non-Executive Chairman of IJM Corporation Berhad and Director of IJM Plantations Berhad, Grupo Concesionario del Oeste S.A., Argentina, Malaysia Airlines Berhad, Malaysia Aviation Group Berhad, and Malaysia Property Incorporated. He is also a member of the Board of Trustees of the Malaysian Community & Education Foundation and a member of the Olympic Council Trust Management Committee.

Tan Sri Krishnan does not have any shareholding in the Bank.

Stuart Paterson Milne, 59
Non-Independent Executive Director and Chief Executive Officer
Appointed to the Board: May 2018

Mr Milne was appointed as the Non-Independent Executive Director and Chief Executive Officer (CEO) on 24 May 2018.

Mr Milne graduated from the University of Durham, United Kingdom with a Bachelor of Arts (Honours) in Oriental Studies (Modern Arabic Studies). He joined HSBC in 1981. Since then, he has worked in a variety of businesses in the United Arab Emirates, Hong Kong, the Philippines, France, United States, Japan and India.

Prior to his appointment in Malaysia, he was the CEO of HSBC Japan and HSBC India respectively.

Mr Milne is a Non-Independent Executive Director of HSBC Amanah Malaysia Berhad (HBMS).

Mr Milne does not have any shareholding in the Bank. His interest in the Bank's related corporation is as disclosed in the Directors' Report on page 16.

Mukhtar Malik Hussain, 59
Non-Independent Executive Director
Appointed to the Board: December 2009

Mr 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 more than 10 years of working in the HSBC Group's London offices, Mr Mukhtar subsequently held numerous posts in Dubai, including CEO of HSBC Financial Services (Middle East) Limited from 1995 to 2003. He established the initiative to create the first foreign investment bank in Saudi Arabia for HSBC.

In 2003, Mr Mukhtar assumed the position of CEO, Corporate and Investment Banking. He then headed back to London as the Co-Head of Global Banking in 2006. He was the Global Head of Principal Investments in London from 2006 to 2008. Between 2008 to 2009, he was the Deputy Chairman, HSBC Bank Middle East Limited and Global CEO of HSBC Amanah. He was also the CEO, Global Banking and Markets for Middle East and North Africa before assuming his role as the CEO of the Bank from 2009 to 2018. Mr Mukhtar is currently HSBC Group General Manager and Head of Belt & Road Initiatives for HSBC Asia Pacific.

Mr Mukhtar is a Non independent Executive Director of HSBC Amanah Malaysia Berhad, Director and Chairman of HSBC Bank (Singapore) Limited and Director of The ICLIFF Leadership and Governance Centre.

Mr Mukhtar is currently HSBC Group General Manager and Head of Belt & Road Initiatives for HSBC Asia Pacific.

Mr Mukhtar does not have any shareholding in the Bank. His interest in the Bank's related corporation is as disclosed in the Directors' Report on page 16.

Lee Choo Hock, 66
Independent Non-Executive Director
Chairman of the Audit Committee and member of the Nominations and Remuneration Committee
Appointed to the Board: December 2013

Mr Lee 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 his 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.

He is a Director of Kossan Rubber Industries Berhad, Yayasan Kossan and an Independent Director of HSBC Amanah Malaysia Berhad.

Mr Lee does not have any shareholding in the Bank.

Tan Kar Leng @ Chen Kar Leng, 73
Independent Non-Executive Director
Chairman of the Nominations and Remuneration Committee and member of the Risk Committee
Appointed to the Board: April 2014

Ms Chen was a graduate from the University of Singapore (now known as the National University of Singapore) and 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.

She is an Independent Director of Eastern & Oriental Berhad and a member of the Board of Trustees of The Tun Dr Lim Chong Eu Foundation. She is also a member of the Bar Council Committees.

Ms Chen does not have any shareholding in the Bank.

Choo Yoo Kwan @ Choo Yee Kwan, 64
Independent Non-Executive Director
Chairman of the Risk Committee and member of the Audit Committee and Nominations and Remuneration Committee
Appointed to the Board: February 2016

Mr Choo has honours degrees in economics and law from University of Malaya and University of London respectively, and is a Barrister-at-Law (of Lincoln's Inn) following his call to the Bar of England and Wales in 1984.

He retired in July 2014 after having served the banking and risk management industry for 38 years. His last position was as Country Chief Risk Officer for OCBC Bank (Malaysia) Berhad (OCBC), having first joined the OCBC Group in December 2007.

Prior to joining OCBC, he was the Chief Risk Officer for Maybank Group and Group Chief Risk Officer for Alliance Bank Malaysia Berhad. During his 14 years career at Maybank Group, he had served as Division Head for Credit Control; International Banking; Corporate Remedial Management; and Group Risk Management. He also served on the Corporate Debt Restructuring Committee set up under Bank Negara Malaysia. Before starting his career with Maybank, he had worked for the National Westminster Bank plc of the United Kingdom in the areas of Global Specialised Industries; and Group Credit Control.

Mr Choo had served on the Education Committee of Asian Institute of Chartered Bankers for 14 years, between 2000 and 2014; and was re-appointed to Education Committee in June 2016. He was appointed as a member of the University Malaya Medical Centre Ethics Committee for 2 years, from 2014 to 2015. He is a Director of Danajamin Nasional Berhad, Chartered Banker and currently serves as a Teaching Facilitator in the Asian Banking School.

Mr Choo does not have any shareholding in the Bank.

BOARD RESPONSIBILITY AND OVERSIGHT

Board of Directors

The objectives of the management structure within the Bank, headed by the Board of Directors and led by the Independent Non-Executive Chairman, are to deliver sustainable value to shareholders and promote a culture of openness and debate. The Board is responsible for overseeing the management of the Bank and reviewing the Bank's strategic plans and key policies. Although the Board delegates the day-to-day management of the Bank's business and implementation of strategy to the Executive Committee, certain matters, including annual operating plans, risk appetite and performance targets, procedures for monitoring and controlling operations, approval of credit or market risk limits, specified senior appointments and any substantial change in balance sheet management policy are reserved by the Board for approval.

The Board meets regularly to review reports on performance against financial and other strategic objectives, key business challenges, risk, business developments, and investor and external relations. All Directors have full and timely access to all relevant information and are encouraged to have free and open contact with management at all levels. Directors may take independent professional advice, if necessary, at the Bank's expense.

At the date of this report, the Board consists of six (6) members; comprising one (1) Independent Non-Executive Chairman, two (2) Non-Independent Executive Directors and three (3) Independent Non-Executive Directors. The names of the Directors serving at the date of this report and brief biographical particulars for each of them are set out on pages 2 to 4.

On 16 March 2018, Mr Peter Wong Tung Shun resigned as Non-Independent Executive Director of the Bank.

On 24 May 2018, Mr Stuart Paterson Milne was appointed as Non-Independent Executive Director of the Bank.

Appointments to the Board are made on merit and candidates are considered against objective criteria, having due regard to the benefits of diversity on the Board. A rigorous selection process, overseen by the Nominations and Remuneration Committee and based on agreed requirements including BNM Corporate Governance Policy requirements are followed in relation to the appointment of Directors.

All Directors, including those appointed by the Board to fill a casual vacancy, are subject to annual re-election by shareholder at the Bank's Annual General Meeting. Non-Executive Directors are appointed for an initial three-year term and, subject to re-election by shareholder at Annual General Meetings, are typically expected to serve two three-year terms. Any term beyond six (6) years is subject to rigorous review. Tenure of Independent Non-Executive Directors shall not exceed a cumulative term of nine years.

The terms and conditions of appointment of Non-Executive Directors are set out in a letter of appointment, which include the expectations of them and the time estimated for them to meet their commitment to the Bank. The current anticipated minimum time of commitment, which is subject to periodic review and adjustment by the Board, is 30 days per year and with appointment in not more than 5 public listed companies. Time devoted to the Bank could be considerably more, particularly if serving on Board committees. All Non-Executive Directors have confirmed they can meet this requirement.

Independent Non-Executive Directors are not HSBC employees and do not participate in the daily business management of the Bank. They bring an external perspective, constructively challenge and help develop proposals on strategy, scrutinise the performance of management in meeting agreed goals and objectives, and monitor the risk profile and reporting of performance of the Bank. The Board has determined that each Non-Executive Director is independent in character and judgment, and there are no relationships or circumstances likely to affect the judgment of the Independent Non-Executive Directors.

The roles of the Independent Chairman and CEO are separate, with a clear division of responsibilities between the running of the Board and executive responsibility for running the Bank's business.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board of Directors (Cont'd)

Board and Committee Meetings

Seven (7) Board meetings were held in 2018. The table below show each Director's attendance (including attendance via video conferencing) at meetings of all Board and Committee meetings during 2018. All Directors have complied with the Bank Negara Malaysia requirements that Directors must attend at least 75% of Board meetings held in the financial year.

2018 Board and Committee meeting attendance	Board	Audit Committee	Risk Committee	Nominations and Remuneration Committee
Total number of meetings held	**7**	**4**	**6**	**7**
Independent Non-Executive Chairman				
Tan Sri Dato' Tan Boon Seng @ Krishnan	7	3	5	7
Non-Independent Executive Directors				
Stuart Paterson Milne [1]	4	-	-	-
Peter Wong Tung Shun [2]	2	-	-	-
Mukhtar Malik Hussain	6	-	-	-
Independent Non-Executive Directors				
Lee Choo Hock	7	4	-	7
Tan Kar Leng @ Chen Kar Leng	7	-	6	7
Choo Yoo Kwan @ Choo Yee Kwan	7	4	6	7

[1] Appointed as Non-Independent Executive Director with effect from 24 May 2018.
[2] Resigned as Non-Independent Executive Director with effect from 16 March 2018.

Directors' Emoluments

Details of the emoluments of the Directors of the Bank for 2018, disclosed in accordance with the Companies Act 2016, are shown in Note 40(b) to the financial statements.

Training and Development

Formal, tailored induction programmes are arranged for newly appointed Directors. The induction programmes consist of a series of meetings with senior executives to enable new Directors to familiarise themselves with the Bank's business. Directors also received comprehensive guidance from the Company Secretary on Directors' duties and responsibilities.

Training and development are provided for Directors, and are regularly reviewed by the Nominations and Remuneration Committee supported by the Company Secretary. Executive Directors develop and refresh their skills and knowledge through day-to-day interactions and briefings with senior management of the Bank's businesses and functions. Non-Executive Directors have access to external training and development resources under the Directors' training and development framework approved by the Board. Awareness and discussion sessions were conducted by senior executives and subject matter experts on emerging technologies, financial crime compliance, regulatory initiatives and other business developments.

During the year, Directors have also attended talks, dialogue sessions and focus group sessions organised by Financial Institutions Directors' Education (FIDE) Forum, and have received refresher training and courses related to financial crime and cybersecurity. The Audit Committee and Risk Committee Chairmen have attended a three-day forum for the HSBC Group's Non-Executive Directors held in May 2018.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board Committees

The Board has established a number of committees, the membership of which comprises Independent Non-Executive Directors who have the skills, knowledge and experience relevant to the responsibilities of the committee. The Board and each Board committee have terms of reference to document their responsibilities and governance procedures. The details of the Board Charter comprising the Board committees' terms of reference are available at http://www.about.hsbc.com.my/hsbc-in-malaysia/management-team.

The key roles of the Board committees are described in the paragraph below. The Chairman of each Board committee reports to each subsequent Board meeting on the activities of the Board committee. Each Board committee will evaluate its terms of reference and its own effectiveness annually.

As at the date of this report, the following are the principal Board committees:

1. Audit Committee

The Audit Committee is accountable to the Board and has non-executive responsibility for oversight of and advice to the Board on financial reporting, including Pillar 3 Disclosures and internal controls over financial reporting, covering all material controls. The Audit Committee reviews the financial statements of the Bank before submission to the Board. It also monitors and reviews the effectiveness of the internal audit function and the Bank's financial and accounting policies and practices. The Audit Committee advises the Board on the appointment of the external auditors and is responsible for oversight of the external auditors.

The Audit Committee reviews and approves the internal audit's annual plan and discusses on the internal audit resources.

The Audit Committee meets regularly with the bank's senior financial and internal audit management and the external auditor to consider, inter alia, the bank's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control relating to financial reporting.

The current members of the Audit Committee, all being Independent Non-Executive Directors, are:
- Lee Choo Hock (Chairman)
- Choo Yoo Kwan @ Choo Yee Kwan
- Tan Sri Dato' Tan Boon Seng @ Krishnan

During 2018, the Audit Committee held 4 meetings. Attendance is set out in the table on page 6.

2. Risk Committee

The Risk Committee is accountable to the Board and has non-executive responsibility for oversight of and advice to the Board on risk related matters and the principal risks impacting the Bank, risk governance and internal control systems (other than internal financial control systems).

The Risk Committee meets regularly with the bank's senior financial, risk, internal audit and compliance management to consider, inter alia, risk reports and the effectiveness of compliance.

The Board and the Risk Committee oversee the maintenance and development of a strong risk management framework by continually monitoring the risk environment, top and emerging risks facing the Bank and mitigation actions planned and taken. The Risk Committee recommends the approval of the Bank's risk appetite statement to the Board and monitors performance against the key performance/risk indicators included within the statement. The Risk Committee monitors the risk profiles for all of the risk categories within the Bank's business.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board Committees (Cont'd)

2. Risk Committee (Cont'd)

The current members of the Risk Committee, all being Independent Non-Executive Directors, are:
- Choo Yoo Kwan @ Choo Yee Kwan *(Chairman, appointed since March 2017)*
- Tan Sri Dato' Tan Boon Seng @ Krishnan *(Resigned as Chairman of Risk Committee since March 2017)*
- Tan Kar Leng @ Chen Kar Leng

During 2018, the Risk Committee held 6 meetings. Attendance is set out in the table on page 6.

3. Nominations and Remuneration Committee

The combined Nominations and Remuneration Committee is accountable to the Board and has non-executive responsibility for: (i) leading the process for Board appointments and for identifying and nominating, for the approval of the Board, candidates for appointment to the Board; (ii) reviewing the candidates for appointment to the senior management team; and (iii) supporting the Board in overseeing the operation of the Bank's remuneration system and reviewing the remuneration of Directors on the Board.

The Nominations and Remuneration Committee considers plans for orderly succession to the Board and the appropriate balance of skills, knowledge and experience on the Board. The Nominations and Remuneration Committee assists the Board in the evaluation of the Board's own effectiveness and that of its committees annually. The findings of the performance evaluation and the implementation of actions arising from the performance evaluation are reported to the Board during 2018.

CEO's performance evaluation is undertaken as part of the performance management process for all employees. The results will be considered by the Nominations and Remuneration Committees when reviewing the variable pay awards.

The members of the Nominations and Remuneration Committee, being all Independent Non-Executive Directors, are:
- Tan Kar Leng @ Chen Kar Leng (Chairman)
- Choo Yoo Kwan @ Choo Yee Kwan
- Lee Choo Hock
- Tan Sri Dato' Tan Boon Seng @ Krishnan

During 2018, the Nominations Committee held 7 meetings. Attendance is set out in the table on page 6.

Delegations By the Board

Connected Party Transactions Committee

The Connected Party Transactions Committee is delegated with the authority of the Board to approve transactions with connected parties of the Bank.

The current members of the Connected Party Transaction Committee are:
- Lee Choo Hock
- Tan Kar Leng @ Chen Kar Leng
- Tan Sri Dato' Tan Boon Seng @ Krishnan
- Chief Risk Officer
- Head of Wholesale Credit and Market Risk

CORPORATE GOVERNANCE DISCLOSURES (Cont'd)

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board Committees (Cont'd)

Delegations By the Board (Cont'd)

Executive Committee

The Executive Committee which consists of key senior management members, meets regularly and operates as a general management committee under the direct authority of the Board. The committee exercising all of the powers, authorities and discretions of the Board in so far as they concern the management and day-to-day running of the Bank, in accordance with such policies and directions as the Board may from time to time determine. The Bank's CEO, Stuart Paterson Milne, chairs the Executive Committee.

To strengthen the governance framework in anticipation of structural and regulatory changes that affect the Bank, the following sub-committees of the Executive Committee were established:

(i) Asset and Liability Management Committee

The Asset and Liability Management Committee is responsible for the efficient management of the Bank's balance sheet and the prudent management of risks.

(ii) Risk Management Meeting

The Risk Management Meeting is responsible for the oversight of the risk framework. Regular Risk Management Meetings (RMM), chaired by the Chief Risk Officer, are held to establish, maintain and periodically review the policy and guidelines for the management of risk within the Bank.

(iii) Financial Crime Risk Management Committee

The Financial Crime Risk Management Committee is responsible for the management of financial crime risk and to support the CEO in discharging the financial crime risk responsibilities.

(iv) IT Steering Committee

The IT Steering Committee is responsible for the oversight of the implementation and development of the IT strategy. The Committee is accountable for reviewing, challenging and approving the financial planning and IT performance.

(v) People Committee

The People Committee is established as a principle human resource forum to drive People Plan i.e. build capability, talent, succession and leaders. The Committees oversees the development and delivery of key people initiative or programmes, and resolve any critical people risks or issues.

Conflicts of Interest and Indemnification of Directors

The Board has adopted a policy and procedures relating to Directors' conflicts of interest. Where conflicts of interest arise, the Board has the power to authorise them. A review of those conflicts which have been authorised, and the terms of those authorisations, is undertaken by the Audit Committee annually.

The Articles of Association provide that Directors are entitled to be indemnified out of the assets of the Bank against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions. Such indemnity provisions have been in place but have not been utilised by the Directors. All Directors have the benefit of directors' and officers' liability insurance.

None of the Directors had, during the year, any material interest, directly or indirectly, in any contract of significance with the Bank. All Directors are regularly reminded of their obligations in respect of disclosure of conflicts or potential conflicts of interest in any transactions with the Bank.

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 Bank and its subsidiaries (collectively known as the Group), key reports submitted to the Board during the financial year include:

- Minutes of the Board Committees
- Annual Operating Plan
- Capital Plan
- Credit Transactions and Exposures to Connected Parties
- Financial Crime Compliance: Anti-Money Laundering and Counter Terrorist Financing Reports
- Internal Capital Adequacy Assessment Process
- Quarterly and Annual Financial Statements
- Quarterly Internal Audit Progress Reports
- Risk Appetite Statement
- Risk and Compliance Reports
- Stress Testing Results

INTERNAL CONTROL FRAMEWORK

The Board is responsible for maintaining and reviewing the effectiveness of risk management and internal control systems and for determining the aggregate levels and types of risks the Group and the Bank are willing to take in achieving their strategic objectives. The Group and the Bank have procedures designed to safeguard assets against unauthorised use or disposal, maintain proper accounting records and ensure the reliability and usefulness of financial information whether published or used within the business. These controls are designed to provide effective internal control within the Group and the Bank. However, they can only provide reasonable, but not absolute, assurance against material mis-statement, errors, losses or fraud. They have been in place throughout the year and up to 12 February 2019, the date of approval of the audited financial statements of the Group and the Bank for the financial year ended 31 December 2018.

Key risk management and internal control procedures include the following:

- **HSBC Group standards**

  HSBC Global Standards Manual (GSM) establishes the high level standards and policies by which, and within which, all members of the Group conduct their businesses. The GSM is mandatory and applies to, and must be observed by, all businesses within the Group, regardless of the nature or location of their activities.

- **Financial reporting**

  The Group's and the Bank's financial reporting process for preparing the financial statements is in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards, the requirements of the Companies Act 2016 in Malaysia and guidelines issued by BNM. The financial reporting process is further supported by a chart of accounts with detailed instructions and guidance on the reporting requirements issued by Global Finance to the Group and the Bank in advance of each quarterly reporting period, as well as analytical review procedure. The financial reports of the Group and the Bank are subject to certification by the Chief Financial Officer and Board's approval.

- **Internal audit**

  The establishment and maintenance of appropriate systems of risk management and internal control is primarily the responsibility of business management. The Global Internal Audit function, provides independent and objective assurance in respect of the adequacy of the design and operating effectiveness of the risk management framework, control and governance processes, focusing on the areas of greatest risk to HSBC through risk-based approach auditing.

  Executive committee is responsible for ensuring that Management Action Plans (MAPs) proposed by management and agreed by the Global Internal Audit function mitigate the risks on hand to within the acceptable risk tolerance level in a sustainable manner and are implemented within an appropriate timeframe.

- **Subsidiary Certifications**

  Half yearly confirmations are provided to the parent bank's Audit Committee from the Audit Committee of the Bank regarding whether the financial statements have been prepared in accordance with HSBC Group policies, present fairly the state of affairs of the relevant principal subsidiary and are prepared on a going concern basis.

CORPORATE GOVERNANCE DISCLOSURES (Cont'd)

INTERNAL CONTROL FRAMEWORK (Cont'd)

- **Delegation of authority within limits set by the Board**

  Authority to manage the day to day running of the Group and the Bank is delegated within limits set by the Board to the Chief Executive who has responsibility for overseeing the establishment and maintenance of systems of control appropriate to the business and who has the authority to delegate such duties and responsibilities as he sees fit. Appointments to the most senior positions within the Group and the Bank require the approval of the Board of Directors.

- **Risk identification and monitoring**

  Systems and procedures are in place to identify, control and report on the material risks facing the Group and the Bank.

- **Changes in market conditions/practices**

  Processes are in place to identify new risks arising from changes in market conditions/practices or customer behaviours, which could expose the Group and the Bank to heightened risk of loss or reputational damage. The Group and the Bank employ a Top and Emerging risks framework at all levels of the organisation, which enables them to identify current and forward-looking risks and to take action which either prevents them materialising or limits their impact.

- **Responsibility for risk management**

  Individual managers are accountable for measuring, monitoring, mitigating and managing the risks and controls in their areas of responsibility. Processes are in place to ensure weaknesses are escalated to senior management and addressed, supported by the three lines of defence model.

- **Strategic plans**

  Strategic plans are prepared for Global Businesses and Functions. The Group and the Bank also prepare and adopt an Annual Operating Plan, which is informed by detailed analysis of risk appetite, describing the types and quantum of risk that the Group and the Bank are prepared to take in executing their strategy and sets out the key business initiatives and the likely financial effects of those initiatives.

- **IT operations**

  Centralised functional control is exercised over all IT developments and operations. Common systems are employed for similar business processes wherever practicable.

- **Global function management**

  Global functions management are responsible for setting policies, procedures and standards to control the principal risks across the group.

INTERNAL CONTROL FRAMEWORK (Cont'd)

During the financial year, the Risk Committee and the Audit Committee have kept under review the effectiveness of this system of internal control and have reported regularly to the Board. In carrying out their reviews, the Audit Committee and Risk Committee receive regular business and operational risk assessments; regular reports from the heads of key risk functions, which cover all internal controls, both financial and non-financial; internal audit reports; external audit reports; prudential reviews; and regulatory reports.

The Risk Committee monitors the status of principal risks and considers whether the mitigating actions put in place are appropriate. In addition, when unexpected losses have arisen or when incidents have occurred which indicate gaps in the control framework or in adherence to HSBC policies, the Risk Committee and the Audit Committee review special reports, prepared at the instigation of management, which analyse the cause of the issue, the lessons learned and the actions proposed by management to address the issue.

REMUNERATION POLICY

The remuneration policy for the HSBC Group aims to reward success, not failure, and to be properly aligned with the risk management framework and risk outcomes. In order to ensure alignment between remuneration and business strategy, individual remuneration is determined through assessment of performance, delivered against both annual and long-term objectives summarised in performance scorecards, as well as adherence to HSBC Values of being 'open, connected and dependable' and acting with 'courageous integrity'. Altogether, performance is judged not only on what is achieved over the short and long term, but also on how it is achieved, as the latter contributes to the sustainability of the organisation. The financial and non-financial measures incorporated in the annual and long-term scorecards are carefully considered to ensure alignment with the long-term strategy of the HSBC Group.

The Group and the Bank have fully adopted the remuneration policy of HSBC Holdings plc. Please refer to the HSBC remuneration practices and governance at http://www.hsbc.com/our-approach/remuneration for more details of the governance structure and the remuneration strategy of the HSBC Group.

In recognition to the local regulations, the materiality of definition needs to be taken into consideration in ensuring a robust corporate governance framework has been duly applied for the Group and the Bank. Further reviews will be conducted to ensure continued adherence to the underlying principles of the local regulations.

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 2018	• Long term	AAA
		• Short term	P1
		• Subordinated liabilities	AA1
		• Outlook	Stable
Moody's Investors Service	November 2018	• Foreign currency long term deposits	A3
		• Local currency long term deposits	A1
		• Foreign currency short term deposits	P-2
		• Local currency short term deposits	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 2018	• Long term	AAA
		• Short term	P1
		• Multi-currency Sukuk Programme	AAA
		• Outlook	Stable

DIRECTORS' REPORT

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 financial year ended 31 December 2018.

DIRECTORS

The Directors in office during the financial year and during the period from the end of the financial year to the date of the report are:

- Tan Sri Dato' Tan Boon Seng @ Krishnan
- Stuart Paterson Milne (appointed on 24 May 2018)
- Mukhtar Malik Hussain
- Lee Choo Hock
- Tan Kar Leng @ Chen Kar Leng
- Choo Yoo Kwan @ Choo Yee Kwan
- Peter Wong Tung Shun (resigned on 16 March 2018)

In accordance with Article 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.

PRINCIPAL ACTIVITIES

The principal activities of the Group and the Bank are banking and related financial services, which also include Islamic banking operations. There have been no significant changes in these activities during the financial year.

FINANCIAL RESULTS

	Group	Bank
	RM'000	RM'000
Profit for the financial year attributable to the owner of the Bank		
Profit before income tax expense	**1,528,732**	**1,327,163**
Income tax expense	**(349,847)**	**(300,978)**
Profit after income tax expense	**1,178,885**	**1,026,185**

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.

ISSUE OF SHARES AND DEBENTURES

There were no material issues of shares or debentures during the financial year under review.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than the benefits shown under Directors' Remuneration) by reason of a contract made by the Bank or by a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither during nor at the end of the financial year was the Bank or any of its subsidiaries a party to any arrangements whose object was to enable 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.

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act 2016, none of the Directors who held office at the end of the financial year held any shares or debentures in the Bank or its subsidiaries or its holding company or subsidiaries of the holding company during the financial year except as follows:

	Number of Ordinary Shares			
	As at 1.1.2018/ Date of Appointment	Acquired	Disposed	As at 31.12.2018
HSBC Holdings plc				
Ordinary shares of USD0.50				
Stuart Paterson Milne [1]	205,070	1,444	-	206,514
Mukhtar Malik Hussain	1,283,886	159,189	-	1,443,075

	Number of Shares			
	Shares held at 1.1.2018/ Date of Appointment	Shares issued during the year[2]	Shares vested during the year	Shares held at 31.12.2018
HSBC Holdings plc				
HSBC Share Plan				
Stuart Paterson Milne [1]	100,647	2,698	(1)	103,344
Mukhtar Malik Hussain	358,635	90,315	(214,940)	234,010

[1] *Including the interest of spouse.*
[2] *Including scrip dividends.*

None of the other Directors holding office at 31 December 2018 had any interest in the ordinary shares and options over shares of the Bank and of its related corporations during the financial year.

DIVIDENDS

The dividends paid since the end of the previous financial year were as follows:

i) In respect of financial year ended 31 December 2017:

The Bank paid a final dividend for the financial year ended 31 December 2017 of RM0.87 per ordinary share amounting to RM200 million. The dividend was paid on 3 May 2018 .

ii) In respect of financial year ended 31 December 2018:

The Bank paid an interim dividend for the financial year ended 2018 of RM1.08 per ordinary share amounting to RM248 million. The dividend was paid on 27 December 2018.

The Directors recommend the payment of a final dividend of RM1.16 per share, amounting to net dividend payment of RM265 million in respect of the financial year ended 31 December 2018. This dividend will be recognised in the subsequent financial year upon approval by the owner of the Bank.

HOLDING COMPANIES

The Directors regard The Hongkong and Shanghai Banking Corporation Limited, a company incorporated in Hong Kong and HSBC Holdings plc, a company incorporated in the United Kingdom, as the immediate and ultimate holding companies of the Bank respectively.

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Bank were prepared, the Directors took reasonable steps:

i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and

ii) to ensure that any current assets which were unlikely to be realised in the ordinary course of business including the value of current assets as shown in the accounting records of the Group and of the Bank had been written down to an amount which the current assets might be expected so to realise.

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

i) which would render the amount written off for bad debts, or the amount of the provision for doubtful debts inadequate to any substantial extent, or

ii) which would render the values attributed to current assets in the financial statements of the Group and of the Bank misleading, or

iii) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate

OTHER STATUTORY INFORMATION (Cont'd)

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

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

ii) any contingent liability in respect of the Group and of the Bank which has arisen since the end of the financial year.

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.

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and of the Bank which would render any amount stated in the respective financial statements misleading.

In the opinion of the Directors:

i) the results of the operations of the Group and of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

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

SIGNIFICANT AND SUBSEQUENT EVENTS

There were no significant events and events subsequent to the date of the statement of financial position that require disclosure or adjustment to the audited financial statements.

SUBSIDIARIES

Details of subsidiaries are set out in Note 18 to the financial statements.

DIRECTORS' REMUNERATION

Details of Directors' remuneration are set out in Note 40(b) to the financial statements.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 37 to the financial statements.

Performance Review, Strategy and Outlook

Performance Review

The Group recorded higher profit before tax (PBT) of RM1,528.7 million for the financial year ended 31 December 2018, an increase of RM288.5 million or 23.3% compared to the prior year.

The improvement of PBT was mainly contributed by higher net interest income (RM166.3m) and income from Islamic banking operations (RM307.3m), partially offset by lower net trading income (RM304.8m).

In addition, the Group and the Bank adopted MFRS 9 with effect from of 1 January 2018. MFRS 9 introduces the Expected Credit Loss (ECL) model on impairment that replaces the incurred loss model used in MFRS 139. The impairment allowance/provisions during the year was lower by RM161.1m compared to prior year.

The Group continued to place high emphasis in managing its operating expenses to ensure that the resources were spent in a sustainable manner. For the financial year ended 31 December 2018, the Group has improved its cost income ratio from 50.9% in 2017 to 48.4% in current financial year through streamlining of processes to attain better operational efficiency. The Group was committed to invest in people to support its growth aspiration and control agenda.

Total balance sheet size at 31 December 2018 has increased by 3.9% or RM3.2 billion to RM83.9 billion (31 December 2017: RM80.7 billion). The Group's capital and liquidity ratios continue to remain strong and well above regulatory requirements.

Business Strategy during the Year 2018

2018 was a year where both HSBC Holdings Plc and HSBC Bank Malaysia Berhad changed Chief Executive Officers. The transition went smoothly and the business strategy remained largely unchanged .

On the retail business, Retail Banking and Wealth Management (RBWM) focused its customer growth in three key customer segments primarily in Premier, Advance and the Retail Business Banking while maintaining balanced risk measures across its processes. Customer acquisitions was driven by its focus on HSBC Perks@Work proposition while the wealth penetration improved with strong marketing campaigns and new product offerings including the re-launch of the Islamic Structured Products for HBMS. The market share for cards and mutual funds also improved through successful acquisitions that leveraged on various acquisition channels. In its effort to provide more seamless customer experience and improve productivity, RBWM introduced/enhanced various initiatives that provides straight through processing capabilities such as real-time live pricing for foreign exchange (FX) transactions at branches, digital credit card application process, and simplification of debit card activation.

Global Banking & Markets (GBM) continued to seize advantage of its leadership and expertise in the debt capital to secure key deals that yielded other ancillary income and opportunities. Collaboration with other HSBC entities continued in order to capture key growth opportunities in ASEAN and Belt and Road Initiative (BRI) corridors. Separately, the HSBC Security Services (HSS) once again asserted its market leadership position as leading custodian and fund administrator by securing its position as Best Sub-Custodian (11th consecutive year) and No.1 Sub Custodian (10th consecutive year). In addition, HSS has also increased market penetration for custodian services to key local market segments, including insurance.

Performance review, Strategy and Outlook (Cont'd)

Business Strategy during the Year 2018 (Cont'd)

Commercial Banking (CMB) focused on a balanced growth agenda in 2018. The Business deployed various robust risk management and streamlining initiatives with aim to support a sustainable business growth model. During the year, CMB conducted a thematic review of the Business Banking portfolio which saw the execution of various initiatives to improve the portfolio quality. Growth was achieved through cross border collaboration across ASEAN corridors and BRI with significant traction in China, Vietnam and Singapore by way of enhanced core capabilities and innovation in cross border cash management, financing solutions, end-to-end structured trade and banking capabilities. During 2018, various digital tools were launched focusing to improve our customers experience including on-boarding turnaround time.

HSBC Malaysia's strong financial position is recognised by external parties including RAM Ratings Services Berhad, which in 2018 reaffirmed the Bank and HBMS's long term and short term ratings of AAA and P1 ratings respectively. The Group and the Bank also continued to maintain its market leader position in various segments, evident by the numerous awards that the Group and the Bank won in 2018.

Corporate social responsibility continues to be a key focus area of HSBC. In 2018, the Group and the Bank continued to focus on three main pillars which include developing Future Skills, Sustainable Network & Entrepreneurship and Sustainable Finance. Through these efforts, the Group and the Bank attained the Sustainable Banking Excellence in Global Responsible Business Leadership Awards 2018 awarded by Asia CSR Council and Institute of Sustainability.

In addition the Group via HBMS, aspires to implementation HSBC's sustainability agenda which is also in line with recently launched Bank Negara's Value Based Intermediation (VBI). VBI is an initiative which aims to encourage banks to generate positive and sustainable impact to the economy, community and environment through practices, conduct and offerings consistent with shareholder's sustainable returns and long term interests. During the year, HBMS issued the world's first Sustainable Development Goals (SDG) Sukuk, wherein the proceeds will be utilised to finance eligible businesses and projects in accordance with the HSBC SDG Bond Framework. Moving forward the Group will continue to explore different opportunities to ensure commitment towards the VBI agenda.

Outlook For 2019

Malaysia's economy registered a real Gross Domestic Product (GDP) of 4.7% in 2018 compared to 5.9% last year. Despite that, the growth rate demonstrated resilience of the economy, given the challenging environment, especially externally. The trend is forecasted to follow through to 2019 with growth anticipated to be in the range of 4.9%, driven by private sector activity amid the continued rationalisation of public sector expenditure, particularly public investment by public corporations. Exports are likely to moderate but would be supported by demand from major trade partners and the gradual recovery in commodities exports. Risks to growth remain tilted to the downside. These stem mainly from a more persistent-than-expected supply disruption in the commodity sector and a potential escalation of trade tensions between the US and China.

Headline inflation declined to 1.0% in 2018 (2017: 3.7%), primarily due to the zerorisation of the goods and services tax (GST) rate from 1 June 2018 to 31 August 2018, coupled with stronger consumer sentiments. Sales and services tax (SST) is reintroduced effective 1 September 2018. With the small average price increase for SST-taxable items in September 2018, the SST impact on inflation during the year has been limited.

Consistent with most regional currencies, the Ringgit underperformed against US dollar during the year before appreciating marginally in the last quarter of 2018. The improvement was despite cautious investor sentiments in global financial markets and non-resident portfolio outflows from the domestic bond and equity markets. However, these outflows were offset by resident inflows, mainly from goods and services, leading to the marginal appreciation of the Ringgit. Going forward, the Ringgit will continue to be influenced by external uncertainties as well as the trajectory of the US dollar.

Performance review, Strategy and Outlook (Cont'd)

Outlook For 2019 (Cont'd)

From funding perspective, the banking system liquidity is expected to remain robust and sufficient to facilitate financial intermediation. However, competition among lenders for deposits will remain although the requirement of complying with Basel III's Net Stable Funding Ratio has been extended by another year to 1 January 2020.

Within HSBC Group, Malaysia is identified as a scalable market and an important footprint within ASEAN. The Group and the Bank will continue to capture opportunities along the entire supply chain of foreign investment into Malaysia and outbound business of our customers. Leveraging on HSBC connectivity, we will explore business opportunity based on intra ASEAN corridors and ASEAN government initiatives. The Group and the Bank will also focus on expanding customers' base to increase market share where it has comparative advantage. This include penetrating new customer segments, investing in digital capabilities for mobile and internet banking, strengthening our leading position in affluent segments, as well as developing change management programs that is customer centric focus.

Awards won during the financial year:

HSBC Bank Malaysia Berhad

1. **Best Renminbi Bank** – The Asset Triple A Treasury, Trade, Supply Chain and Risk Management Awards 2018
2. **Best Service Provider, Trade Finance** – Malaysia, The Asset Triple A Treasury, Trade, Supply Chain and Risk Management Awards 2018
3. **Sustainable Banking Excellence –** Global Responsible Business Leadership Awards 2018
4. **Best Fund Administrator –** The Asset Triple A Asset Servicing, Institutional Investor and Insurance Awards 2018 (3rd Consecutive years)
5. **Best Sub-custodian -** The Asset Triple A Asset Servicing, Institutional Investor and Insurance Awards 2018 (11st Consecutive years)
6. **Custodian Banker of the Year -** The Asset Triple A Asset Servicing, Institutional Investor and Insurance Awards 2018
7. **No 1 Sub-Custodian in Malaysia (Weighted and Unweighted Category)** – Global Investor / International Securities Finance (ISF) Sub Custody Survey 2018 (10th Consecutive years)
8. **Country House Malaysia –** Asia Risk Awards 2018
9. **Bronze in Banking, Investment & Insurance -** Putra Brand Awards 2018
10. **#1 Domestic Cash Manager in Malaysia as voted by Corporates, Euromoney Cash Management Survey 2018 -** Market Leader (2nd consecutive year)
11. **#1 in Asia for Malaysian Ringgit as voted by Financial Institutions, Euromoney Cash Management Survey 2018 –** Market Leader (2nd consecutive year)
12. **#1 in Asia for Overall Services in Malaysian Ringgit as voted by Financial Institutions, Euromoney Cash Management Survey 2018 –** Best Service

Awards won during the financial year: (Cont'd)

HSBC Bank Malaysia Berhad (Cont'd)

13. **Chief Human Resource Officer of the Year –** The Golden Globe Tigers 2018

14. **Best in Class for Talent Management –** The Golden Globe Tigers 2018

15. **Best Advance in Employee Engagement -** The Golden Globe Tigers 2018

16. **Malaysia Best Employer Brand Awards 2018 -** Employer Branding Awards

17. **Marketing Trailblazer for Financial Services, GOLD Award -** Malaysian CMO Award 2018

18. **Best bank in Malaysia** – The Asset Country Awards 2018

19. **Best bond adviser in Malaysia** - The Asset Country Awards 2018

20. **Best corporate and institutional adviser in Malaysia** - The Asset Country Awards 2018

21. **Best local currency bond in Malaysia** - Mercedes Benz Services Malaysia 250 million ringgit fixed rate notes - The Asset Country Awards 2018

22. **Best syndicated loan in Malaysia** - KWASA Jeden Finco SARL €268.2 million equivalent term loan and revolving credit facilities - The Asset Country Awards 2018

HSBC Amanah Malaysia Berhad

1. **Best Islamic Trade Finance Bank Malaysia** – The Asset Triple A Islamic Finance Awards 2018

2. **Best Quasi-Sovereign Sukuk for Cagamas dual re-opening of three-year 475 million ringgit sukuk and 525 million ringgit sukuk** - The Asset Triple A Islamic Finance Awards 2018

3. **Best Islamic Liability Management for Sime Darby Berhad any-and-all cash tender offer and consent solicitation** - The Asset Triple A Islamic Finance Awards 2018

4. **Best Islamic Syndicated Loan for Saudi Telecom Company (STC) Malaysia Holding Limited 1.508 billion ringgit syndicated murabaha facility** – The Asset Triple A Islamic Finance Awards 2018

5. **Best Islamic Banker** – The Asset Triple A Islamic Finance Awards 2018

6. **Social Impact deal of the year for HSBC Amanah's RM500 million (US$121.92 million) five-year SDG Sukuk** – IFN Deal Awards 2018

7. **Country deal of the year for HSBC Amanah's RM500 million (US$121.92 million) five-year SDG Sukuk** – IFN Deal Awards 2018

8. **Finalist for overall deal of the year for HSBC Amanah's RM500 million (US$121.92 million) five-year SDG Sukuk** – IFN Deal Awards 2018

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to accept re-appointment as auditors. A resolution to re-appoint PricewaterhouseCoopers PLT as auditor of the Group and the Bank will be proposed at the forthcoming Annual General Meeting.

This report was approved by the Board of Directors on 12 February 2019.

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

……………………..…………………..…..….
STUART PATERSON MILNE
Director

……………………..…………………..…..….
LEE CHOO HOCK
Director

Kuala Lumpur, Malaysia
12 February 2019

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

STATEMENT BY DIRECTORS PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, Stuart Paterson Milne and Lee Choo Hock, two of the Directors of HSBC Bank Malaysia Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 30 to 177 are drawn up so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2018 and financial performance of the Group and of the Bank for the financial year ended 31 December 2018 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 12 February 2019.

……………………..……………………..…..….	……………………..……………………..…..….
STUART PATERSON MILNE	**LEE CHOO HOCK**
Director	Director

Kuala Lumpur, Malaysia
12 February 2019

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

STATUTORY DECLARATION PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT 2016

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 30 to 177 are correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act 1960.

Subscribed and solemnly declared by the abovenamed.

at Kuala Lumpur, Malaysia on 12 February 2019.

....
SAW SAY PIN

BEFORE ME:

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF HSBC BANK MALAYSIA BERHAD
(Incorporated in Malaysia)
(Company No. 127776-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of HSBC Bank Malaysia Berhad ("the Bank") and its subsidiaries ("the Group") give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2018, and of their financial performance and their 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 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Group and of the Bank, which comprise the statements of financial position as at 31 December 2018 of the Group and of the Bank, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 30 to 177.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

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

Independence and other ethical responsibilities

We are independent of the Group and of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF HSBC BANK MALAYSIA BERHAD (CONT'D)
(Incorporated in Malaysia)
(Company No. 127776-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

<u>Information other than the financial statements and auditors' report thereon</u>

The Directors of the Bank are responsible for the other information. The other information comprises the list of Board of Directors, Corporate Governance Disclosures, Rating by External Rating Agencies and Directors' Report, but does not include the financial statements of the Group and of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

<u>Responsibilities of the directors for the financial statements</u>

The Directors of the Bank are responsible for the preparation of the financial statements of the Group and of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Bank, the directors are responsible for assessing the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF HSBC BANK MALAYSIA BERHAD (CONT'D)
(Incorporated in Malaysia)
(Company No. 127776-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

Auditors' responsibilities for the audit of the financial statements

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

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements of the Group and of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Bank's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

(d) Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or Bank to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Bank, including the disclosures, and whether the financial statements of the Group and of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF HSBC BANK MALAYSIA BERHAD (CONT'D)
(Incorporated in Malaysia)
(Company No. 127776-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

Auditors' responsibilities for the audit of the financial statements (Cont'd)

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

OTHER MATTERS

This report is made solely to the member of the Bank, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

SOO HOO KHOON YEAN
2682/10/19(J)
Chartered Accountant

Kuala Lumpur
18 February 2019

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

STATEMENTS OF FINANCIAL POSITION
AT 31 DECEMBER 2018

		Group		*Bank*	
		31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Assets					
Cash and short-term funds	*7*	**7,908,159**	10,313,776	**5,137,240**	8,879,053
Securities purchased under resale agreements		**2,557,198**	1,964,930	**2,557,198**	1,964,930
Deposits and placements with banks and other financial institutions	*8*	**227,535**	709,999	**1,369,248**	3,703,498
Financial assets held-for-trading	*9*	**-**	1,988,719	**-**	1,988,719
Financial assets at fair value through profit and loss (FVTPL)	*10*	**2,327,385**	-	**2,327,385**	-
Financial investments available-for-sale	*11*	**-**	9,780,405	**-**	7,559,361
Financial investments at fair value through other comprehensive income (FVOCI)	*12*	**13,720,317**	-	**10,994,634**	-
Loans, advances and financing	*13*	**53,308,493**	51,979,654	**39,171,156**	38,595,851
Derivative financial assets	*44*	**1,299,939**	2,045,225	**1,303,262**	2,045,005
Other assets	*16*	**634,695**	331,500	**658,356**	472,398
Statutory deposits with Bank Negara Malaysia	*17*	**1,200,662**	1,084,888	**836,000**	723,526
Investments in subsidiary companies	*18*	**-**	-	**660,021**	660,021
Property and equipment	*20*	**467,730**	371,259	**460,862**	365,739
Intangible assets	*21*	**39,691**	46,573	**39,691**	46,573
Tax recoverable		**20,850**	28,474	**20,850**	20,850
Deferred tax assets	*22*	**208,895**	103,105	**191,532**	94,468
Total assets		**83,921,549**	80,748,507	**65,727,435**	67,119,992
Liabilities					
Deposits from customers	*23*	**57,147,153**	56,551,151	**45,702,597**	46,516,647
Deposits and placements from banks and other financial institutions	*24*	**5,518,751**	5,353,609	**2,798,088**	4,432,767
Repurchase agreement		**147,871**	-	**147,871**	-
Bills payable		**250,704**	318,009	**232,110**	301,331
Derivative financial liabilities	*44*	**1,116,285**	2,096,405	**1,134,562**	2,109,255
Structured liabilities designated at fair value through profit and loss	*25*	**4,158,241**	-	**3,273,364**	-
Other liabilities	*26*	**2,389,097**	4,682,041	**2,192,462**	4,221,857
Provision for taxation		**164,706**	74,400	**135,186**	74,400
Multi-Currency Sukuk Programme	*27*	**1,755,281**	1,252,829	**-**	-
Subordinated liabilities	*28*	**1,095,987**	1,083,903	**1,095,987**	1,083,903
Total liabilities		**73,744,076**	71,412,347	**56,712,227**	58,740,160
Equity					
Share capital	*29*	**1,045,875**	1,045,875	**1,045,875**	1,045,875
Reserves	*30*	**9,131,598**	8,290,285	**7,969,333**	7,333,957
Total equity attributable to owner of the Bank		**10,177,473**	9,336,160	**9,015,208**	8,379,832
Total liabilities and equity		**83,921,549**	80,748,507	**65,727,435**	67,119,992
Commitments and contingencies	*43*	**188,548,995**	182,591,144	**183,918,046**	173,673,824

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 FINANCIAL YEAR ENDED 31 DECEMBER 2018

		Group		Bank	
		31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Interest income	*31*	**2,380,431**	2,256,026	**2,430,422**	2,334,198
Interest expense	*31*	**(767,529)**	(809,453)	**(767,529)**	(809,453)
Net interest income	*31*	**1,612,902**	1,446,573	**1,662,893**	1,524,745
Fee and commission income	*32*	**464,983**	472,120	**464,983**	472,120
Fee and commission expense	*32*	**(66,072)**	(87,327)	**(66,072)**	(87,327)
Net fee and commission income	*32*	**398,911**	384,793	**398,911**	384,793
Net trading income	*33*	**462,576**	767,391	**577,951**	564,175
Income from Islamic banking operations	*34*	**693,078**	385,825	-	-
Net expenses from financial liabilities designated at fair value		**(90,036)**	-	**(90,036)**	-
Other operating income	*35*	**41,806**	36,477	**177,970**	158,737
Operating income before impairment losses		**3,119,237**	3,021,059	**2,727,689**	2,632,450
Impairment allowance/provisions	*36*	**(81,950)**	(243,064)	**(12,506)**	(74,461)
Net operating income		**3,037,287**	2,777,995	**2,715,183**	2,557,989
Other operating expenses	*37*	**(1,508,555)**	(1,537,775)	**(1,388,020)**	(1,424,082)
Profit before tax		**1,528,732**	1,240,220	**1,327,163**	1,133,907
Tax expense	*38*	**(349,847)**	(298,409)	**(300,978)**	(278,476)
Profit for the financial year		**1,178,885**	941,811	**1,026,185**	855,431

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 FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Cont'd)

		Group		Bank	
		31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Other comprehensive income/(expense)					
Items that will not be reclassified to profit or loss					
Revaluation reserve:					
(Deficit)/Surplus on revaluation properties		**(3,499)**	4,017	**(3,499)**	4,017
Deferred tax adjustment on revaluation reserve		**(6,111)**	(964)	**(6,111)**	(964)
Own credit reserve:					
Change in fair value		**(10,226)**	2,731	**(5,367)**	-
Income tax effect		**2,454**	(655)	**1,288**	-
Items that will subsequently be reclassified to profit or loss when specific conditions are met					
Available-for-sale reserve:					
Change in fair value		**-**	68,972	**-**	60,122
Amount transferred to profit or loss		**-**	(2,524)	**-**	(2,524)
Income tax effect		**-**	(15,948)	**-**	(13,824)
Fair value through other comprehensive income reserve:					
Change in fair value		**(2,649)**	-	**(2,363)**	-
Amount transferred to profit or loss		**(15,724)**	-	**(16,205)**	-
Impairment charges		**135**	-	**110**	-
Income tax effect		**2,025**	-	**2,071**	-
Financial assets designated as fair value through other comprehensive income:					
Change in fair value		**9,999**	-	**9,999**	-
Other comprehensive (expense)/income for the financial year, net of income tax		**(23,596)**	55,629	**(20,077)**	46,827
Total comprehensive income for the financial year		**1,155,289**	997,440	**1,006,108**	902,258
Profit attributable to the owner of the Bank		**1,178,885**	941,811	**1,026,185**	855,431
Total comprehensive income attributable to the owner of the Bank		**1,155,289**	997,440	**1,006,108**	902,258
Basic earnings per RM0.50 ordinary share	*39*	**514.8 sen**	411.3 sen	**448.1 sen**	373.6 sen

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 FINANCIAL YEAR ENDED 31 DECEMBER 2018

Group (RM'000)	*Share capital*	*Revaluation reserve*	*Available-for-sale reserve*	*FVOCI reserve*	*Own credit reserve*	*Capital contribution reserve*	*Regulatory reserve*	*Retained profits*	*Total equity*
2018									
Balance at 1 January									
- As previously stated	**1,045,875**	**216,937**	**131,657**	**-**	**230**	**94,583**	**284,000**	**7,562,878**	**9,336,160**
- Impact on transition to MFRS 9 (See Note 3)	**-**	**-**	**(131,657)**	**132,183**	**679**	**-**	**43,680**	**88,046**	**132,931**
- As restated	**1,045,875**	**216,937**	**-**	**132,183**	**909**	**94,583**	**327,680**	**7,650,924**	**9,469,091**
Total comprehensive income for the financial year									
Profit for the financial year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,178,885**	**1,178,885**
Other comprehensive income, net of income tax									
Revaluation reserve:									
Transfer to retained profits upon realisation of depreciation	**-**	**(2,437)**	**-**	**-**	**-**	**-**	**-**	**2,437**	**-**
Deficit on revaluation of properties	**-**	**(3,499)**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,499)**
Deferred tax adjustment on revaluation reserve	**-**	**(6,111)**	**-**	**-**	**-**	**-**	**-**	**-**	**(6,111)**
Fair value through other comprehensive income reserve:									
Net change in fair value	**-**	**-**	**-**	**5,601**	**(7,772)**	**-**	**-**	**-**	**(2,171)**
Net amount transferred to profit or loss	**-**	**-**	**-**	**(11,950)**	**-**	**-**	**-**	**-**	**(11,950)**
Impairment charges	**-**	**-**	**-**	**135**	**-**	**-**	**-**	**-**	**135**
Total other comprehensive income	***-***	***(12,047)***	***-***	***(6,214)***	***(7,772)***	***-***	***-***	***2,437***	***(23,596)***
Total comprehensive income for the financial year	**-**	**(12,047)**	**-**	**(6,214)**	**(7,772)**	**-**	**-**	**1,181,322**	**1,155,289**
Transfer to regulatory reserves	**-**	**-**	**-**	**-**	**-**	**-**	**231,520**	**(231,520)**	**-**
Transactions with the owner, recorded directly in equity									
Share based payment transactions	**-**	**-**	**-**	**-**	**-**	**5,003**	**-**	**(3,910)**	**1,093**
Dividends paid to owner - 2018 interim	**-**	**-**		**-**	**-**	**-**	**-**	**(248,000)**	**(248,000)**
Dividends paid to owner - 2017 final	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(200,000)**	**(200,000)**
Balance at 31 December	**1,045,875**	**204,890**	**-**	**125,969**	**(6,863)**	**99,586**	**559,200**	**8,148,816**	**10,177,473**

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 FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Cont'd)

Group (RM'000)	*Share capital*	*Share premium*	*Statutory reserve*	*Revaluation reserve*	*Capital redemption reserve*	*Available-for-sale reserve*	*Own credit reserve*	*Capital contribution reserve*	*Regulatory reserve*	*Retained profits*	*Total equity*
2017											
Balance at 1 January	114,500	741,375	164,500	216,229	190,000	81,157	(1,846)	83,841	284,000	6,855,608	8,729,364
Total comprehensive income for the financial year											
Profit for the financial year	-	-	-	-	-	-	-	-	-	941,811	941,811
Other comprehensive income, net of income tax											
Revaluation reserve:											
Transfer to retained profits upon realisation of depreciation	-	-	-	(2,345)	-	-	-	-	-	2,345	-
Surplus on revaluation of properties	-	-	-	4,017	-	-	-	-	-	-	4,017
Deferred tax adjustment on revaluation reserve	-	-	-	(964)	-	-	-	-	-	-	(964)
Available-for-sale reserve:											
Net change in fair value	-	-	-	-	-	52,419	2,076	-	-	-	54,495
Net amount transferred to profit or loss	-	-	-	-	-	(1,919)	-	-	-	-	(1,919)
Total other comprehensive income	-	-	-	*708*	-	*50,500*	*2,076*	-	-	*2,345*	*55,629*
Total comprehensive income for the financial year	-	-	-	708	-	50,500	2,076	-	-	944,156	997,440
Transition to no par value regime on 31 January 2017 [1]	931,375	(741,375)	-	-	(190,000)	-	-	-	-	-	-
Transfer in accordance with BNM's requirement [2]	-	-	(164,500)	-	-	-	-	-	-	164,500	-
Transactions with the owner, recorded directly in equity											
Share based payment transactions	-	-	-	-	-	-	-	10,742	-	(1,386)	9,356
Dividends paid to owner - 2017 interim	-	-	-	-	-	-	-	-	-	(200,000)	(200,000)
Dividends paid to owner - 2016 final	-	-	-	-	-	-	-	-	-	(200,000)	(200,000)
Balance at 31 December	1,045,875	-	-	216,937	-	131,657	230	94,583	284,000	7,562,878	9,336,160

[1] The new Companies Act 2016, which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Consequently, the amounts standing to the credit of the share premium account of RM741m and capital redemption reserves of RM190m became part of the Group's share capital pursuant to the transitional provisions set out in Section 618(2) of the Act. There was no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

[2] With effect from 3 May 2017, the Group was no longer required to maintain statutory reserve pursuant to Bank Negara Malaysia's guideline on Capital Funds.

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 FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Cont'd)

Bank (RM'000)	*Non-distributable*							*Distributable*	
	Share capital	*Revaluation reserve*	*Available-for-sale reserve*	*FVOCI reserve*	*Own credit reserve*	*Capital contribution reserve*	*Regulatory reserve*	*Retained profits*	*Total equity*
2018									
Balance at 1 January									
- As previously stated	**1,045,875**	**216,937**	**131,478**	**-**	**-**	**94,175**	**250,000**	**6,641,367**	**8,379,832**
- Impact on transition to MFRS 9 (See Note 3)	**-**	**-**	**(131,478)**	**131,878**	**203**	**-**	**27,720**	**47,956**	**76,279**
- As restated	**1,045,875**	**216,937**	**-**	**131,878**	**203**	**94,175**	**277,720**	**6,689,323**	**8,456,111**
Total comprehensive income for the financial year									
Profit for the financial year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,026,185**	**1,026,185**
Other comprehensive income, net of income tax									
Revaluation reserve:									
Transfer to retained profits upon realisation of depreciation	**-**	**(2,437)**	**-**	**-**	**-**	**-**	**-**	**2,437**	**-**
Deficit on revaluation of properties	**-**	**(3,499)**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,499)**
Deferred tax adjustment on revaluation reserve	**-**	**(6,111)**	**-**	**-**	**-**	**-**	**-**	**-**	**(6,111)**
Fair value through other comprehensive income reserve:									
Net change in fair value	**-**	**-**	**-**	**5,818**	**(4,079)**	**-**	**-**	**-**	**1,739**
Net amount transferred to profit or loss	**-**	**-**	**-**	**(12,316)**	**-**	**-**	**-**	**-**	**(12,316)**
Impairment charges	**-**	**-**	**-**	**110**	**-**	**-**	**-**	**-**	**110**
Total other comprehensive income	***-***	***(12,047)***	***-***	***(6,388)***	***(4,079)***	***-***	***-***	***2,437***	***(20,077)***
Total comprehensive income for the financial year	**-**	**(12,047)**	**-**	**(6,388)**	**(4,079)**	**-**	**-**	**1,028,622**	**1,006,108**
Transfer to regulatory reserves	**-**	**-**	**-**	**-**	**-**	**-**	**190,380**	**(190,380)**	**-**
Transactions with the owner, recorded directly in equity									
Share based payment transactions	**-**	**-**	**-**	**-**	**-**	**4,912**	**-**	**(3,923)**	**989**
Dividends paid to owner - 2018 interim	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(248,000)**	**(248,000)**
Dividends paid to owner - 2017 final	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(200,000)**	**(200,000)**
Balance at 31 December	**1,045,875**	**204,890**	**-**	**125,490**	**(3,876)**	**99,087**	**468,100**	**7,075,642**	**9,015,208**

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 FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Cont'd)

Bank (RM'000)	*Non-distributable*								*Distributable*	
	Share capital	*Share premium*	*Statutory reserve*	*Revaluation reserve*	*Capital redemption reserve*	*Available-for-sale reserve*	*Capital contribution reserve*	*Regulatory reserve*	*Retained profits*	*Total equity*
2017										
Balance at 1 January	114,500	741,375	114,500	216,229	190,000	87,704	83,438	250,000	6,070,467	7,868,213
Total comprehensive income for the financial year										
Profit for the financial year	-	-	-	-	-	-	-	-	855,431	855,431
Other comprehensive income, net of income tax										
Revaluation reserve:										
Transfer to retained profits upon realisation of depreciation	-	-	-	(2,345)	-	-	-	-	2,345	-
Surplus on revaluation of properties	-	-	-	4,017	-	-	-	-	-	4,017
Deferred tax adjustment on revaluation reserve	-	-	-	(964)	-	-	-	-	-	(964)
Available-for-sale reserve:										
Net change in fair value	-	-	-	-	-	45,693	-	-	-	45,693
Net amount transferred to profit or loss	-	-	-	-	-	(1,919)	-	-	-	(1,919)
Total other comprehensive income	-	-	-	*708*	-	*43,774*	-	-	*2,345*	*46,827*
Total comprehensive income for the financial year	-	-	-	708	-	43,774	-	-	857,776	902,258
Transition to no par value regime on 31 January 2017 [1]	931,375	(741,375)	-	-	(190,000)	-	-	-	-	-
Transfer in accordance with BNM's requirement [2]	-	-	(114,500)	-	-	-	-	-	114,500	-
Transactions with the owner, recorded directly in equity										
Share based payment transactions	-	-	-	-	-	-	10,737	-	(1,376)	9,361
Dividends paid to owner - 2017 interim	-	-	-	-	-	-	-	-	(200,000)	(200,000)
Dividends paid to owner - 2016 final	-	-	-	-	-	-	-	-	(200,000)	(200,000)
Balance at 31 December	1,045,875	-	-	216,937	-	131,478	94,175	250,000	6,641,367	8,379,832

[1] The new Companies Act 2016, which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Consequently, the amounts standing to the credit of the share premium account of RM741m and capital redemption reserves of RM190m became part of the Bank's share capital pursuant to the transitional provisions set out in Section 618(2) of the Act. There was no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

[2] With effect from 3 May 2017, the Group was no longer required to maintain statutory reserve pursuant to Bank Negara Malaysia's guideline on Capital Funds.

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 FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Group	
	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Cash Flows from Operating Activities		
Profit before income tax expense	**1,528,732**	1,240,220
Adjustments for :		
Property and equipment written off	**27**	70
Intangible assets written off	**-**	618
Depreciation of property and equipment	**21,583**	22,417
Amortisation of intangible assets	**19,505**	22,187
Net gains on disposal of property and equipment	**(134)**	(73)
Net upwards revaluation on property	**(8)**	(17)
Impairment of intangible assets	**53**	156
Share-based payment transactions	**11,390**	14,333
Dividend income	**(1,363)**	(2,319)
Net expenses on financial instrument at FVTPL	**106,117**	761
Unrealised losses/(gains) on revaluation of financial assets at FVTPL	**1,804**	(18,352)
Unrealised losses/(gains) of foreign exchange translation on subordinated liabilities	**12,084**	(64,921)
Unrealised (gains)/losses on revaluation of derivatives	**(182,243)**	118,673
Unrealised (gains)/losses from dealing in foreign currency	**(110,738)**	293,967
Allowance for impairment losses	**190,195**	332,268
Operating profit before changes in operating assets and liabilities	**1,597,004**	1,959,988
(Increase)/Decrease in operating assets		
Securities purchased under resale agreements	**(592,268)**	4,197,300
Deposits and placements with banks and other financial institutions	**299,058**	1,151,401
Financial assets at FVTPL	**(340,470)**	296,085
Loans, advances and financing	**(1,348,478)**	(5,417,088)
Derivative financial assets	**1,038,267**	531,089
Other assets	**(168,336)**	(57,546)
Statutory deposits with Bank Negara Malaysia	**(115,774)**	33,472
Total (increase)/decrease in operating assets	**(1,228,001)**	734,713
Increase/(Decrease) in operating liabilities		
Deposits from customers	**596,002**	(1,160,383)
Deposits and placements from banks and other financial institutions	**1,530,335**	(1,217,584)
Repurchase agreements	**147,871**	-
Structured liabilities designated at FVTPL	**1,193,423**	-
Bills payable	**(67,305)**	(8,296)
Derivative financial liabilities	**(980,120)**	(1,031,825)
Other liabilities	**(711,467)**	(758,761)
Total increase/(decrease) in operating liabilities	**1,708,739**	(4,176,849)
Cash generated from/(used in) operating activities	**2,077,742**	(1,482,148)
Income tax paid	**(401,262)**	(287,673)
Net cash generated from/(used in) operating activities	**1,676,480**	(1,769,821)

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 FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Cont'd)

	Group	
	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Cash Flows from Investing Activities		
Purchase of financial investment at FVOCI	**(13,979,955)**	(12,637,464)
Proceeds from disposal/redemption of financial investment at FVOCI	**10,080,989**	9,469,236
Purchase of property and equipment	**(121,572)**	(25,541)
Purchase of intangible assets	**(12,676)**	(10,803)
Proceeds from disposal of property and equipment	**134**	226
Dividends received	**1,363**	2,319
Net cash used in investing activities	**(4,031,717)**	(3,202,027)
Cash Flows from Financing Activities		
Redemption from subordinated liabilities	**-**	(500,000)
Interest paid on subordinated liabilities	**(52,194)**	(51,957)
Issuance of Multi-Currency Sukuk Programme	**500,000**	-
Redemption from Multi-Currency Sukuk Programme	**-**	(500,000)
Profits paid on Multi-Currency Sukuk Programme	**(50,186)**	(66,533)
Dividends paid	**(448,000)**	(400,000)
Net cash used in financing activities	**(50,380)**	(1,518,490)
Net decrease in Cash and Cash Equivalents	**(2,405,617)**	(6,490,338)
Cash and Cash Equivalents at beginning of the financial year	**10,313,776**	16,804,114
Cash and Cash Equivalents at end of the financial year	**7,908,159**	10,313,776
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**7,908,159**	10,313,776

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 FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Cont'd)

	Bank	
	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Cash Flows from Operating Activities		
Profit before income tax expense	**1,327,163**	1,133,907
Adjustments for :		
Property and equipment written off	**26**	67
Intangible assets written off	**-**	618
Depreciation of property and equipment	**19,259**	18,402
Amortisation of intangible assets	**19,505**	22,187
Net gains on disposal of property and equipment	**(134)**	(73)
Net upwards revaluation on property	**(8)**	(17)
Impairment of intangible assets	**53**	156
Share-based payment transactions	**11,203**	14,226
Dividend income	**(11,363)**	(2,319)
Net expenses on financial instrument at FVTPL	**90,036**	-
Unrealised losses/(gains) on revaluation of financial assets at FVTPL	**853**	(17,313)
Unrealised losses/(gains) of foreign exchange translation on subordinated liabilities	**12,084**	(64,921)
Unrealised (gains)/losses on revaluation of derivatives	**(170,208)**	123,501
Unrealised (gains)/losses from dealing in foreign currency	**(239,525)**	494,055
Allowance for impairment losses	**79,768**	129,699
Operating profit before changes in operating assets and liabilities	**1,138,712**	1,852,175
(Increase)/Decrease in operating assets		
Securities purchased under resale agreements	**(592,268)**	4,197,300
Deposits and placements with banks and other financial institutions	**2,150,844**	171,988
Financial assets at FVTPL	**(339,519)**	294,558
Loans, advances and financing	**(559,882)**	(3,573,979)
Derivative financial assets	**1,151,476**	426,885
Other assets	**(46,895)**	(192,847)
Statutory deposits with Bank Negara Malaysia	**(112,474)**	69,372
Total decrease in operating assets	**1,651,282**	1,393,277
(Decrease)/Increase in operating liabilities		
Deposits from customers	**(814,050)**	(2,468,365)
Deposits and placements from banks and other financial institutions	**(270,165)**	(2,110,010)
Repurchase agreements	**147,871**	-
Structured liabilities designated at FVTPL	**607,838**	-
Bills payable	**(69,221)**	(1,342)
Derivative financial liabilities	**(974,693)**	(1,023,258)
Other liabilities	**(777,093)**	(185,751)
Total decrease in operating liabilities	**(2,149,513)**	(5,788,726)
Cash generated from/(used in) operating activities	**640,481**	(2,543,274)
Income tax paid	**(364,020)**	(269,369)
Net cash generated from/(used in) operating activities	**276,461**	(2,812,643)

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 FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Cont'd)

	Bank	
	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Cash Flows from Investing Activities		
Purchase of financial investment at FVOCI	**(12,694,058)**	(11,038,884)
Proceeds from disposal/redemption of financial investment at FVOCI	**9,295,056**	8,714,147
Purchase of property and equipment	**(117,899)**	(23,240)
Purchase of intangible assets	**(12,676)**	(10,803)
Proceeds from disposal of property and equipment	**134**	226
Dividends received	**11,363**	2,319
Net cash used in investing activities	**(3,518,080)**	(2,356,235)
Cash Flows from Financing Activities		
Redemption from subordinated liabilities	**-**	(500,000)
Interest paid on subordinated liabilities	**(52,194)**	(51,957)
Dividends paid	**(448,000)**	(400,000)
Net cash used in financing activities	**(500,194)**	(951,957)
Net decrease in Cash and Cash Equivalents	**(3,741,813)**	(6,120,835)
Cash and Cash Equivalents at beginning of the financial year	**8,879,053**	14,999,888
Cash and Cash Equivalents at end of the financial year	**5,137,240**	8,879,053
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**5,137,240**	8,879,053

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 FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Cont'd)

Change in liabilities arising from financing activities

Group (RM'000)

2018	**At 1 January**	**Cash inflow/ (outflow)**	**Foreign exchange adjustment**	**Fair value movement**	**Interest/ Profit accrual**	**At 31 December**
Multi-Currency Sukuk Programme	1,252,829	500,000	-	2,452	-	1,755,281
Subordinated liabilities	1,083,903	-	12,084	-	-	1,095,987
Other liabilities of which:						
Profit paid on Multi-Currency Sukuk Programme	12,815	(50,186)	-	-	55,546	18,175
Interest paid on Subordinated liabilities	6,521	(52,194)	-	-	50,130	4,458
Dividend paid	-	(448,000)	-	-	-	-
	2,356,068	(50,380)	12,084	2,452	105,676	2,873,901
2017						
Multi-Currency Sukuk Programme	1,756,001	(500,000)	-	(3,172)	-	1,252,829
Subordinated liabilities	1,648,824	(500,000)	(64,921)	-	-	1,083,903
Other liabilities of which:						
Profit paid on Multi-Currency Sukuk Programme	17,637	(66,533)	-	-	61,711	12,815
Interest paid on Subordinated liabilities	4,593	(51,957)	-	-	53,885	6,521
Dividend paid	-	(400,000)	-	-	-	-
	3,427,055	(1,518,490)	(64,921)	(3,172)	115,596	2,356,068

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 FINANCIAL YEAR ENDED 31 DECEMBER 2018 (Cont'd)

Change in liabilities arising from financing activities (Cont'd)

Bank (RM'000)

2018	**At 1 January**	**Cash inflow/ (outflow)**	**Foreign exchange adjustment**	**Fair value movement**	**Interest accrual**	**At 31 December**
Subordinated liabilities	1,083,903	-	12,084	-	-	1,095,987
Other liabilities of which:						
Interest paid on Subordinated liabilities	6,521	(52,194)	-	-	50,130	4,458
Dividend paid	-	(448,000)	-	-	-	-
	1,090,424	(500,194)	12,084	-	50,130	1,100,445
2017						
Subordinated liabilities	1,648,824	(500,000)	(64,921)	-	-	1,083,903
Other liabilities of which:						
Interest paid on Subordinated liabilities	4,593	(51,957)	-	-	53,885	6,521
Dividend paid	-	(400,000)	-	-	-	-
	1,653,417	(951,957)	(64,921)	-	53,885	1,090,424

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.

The Bank is a public limited liability company, incorporated and domiciled in Malaysia. The registered office of the Bank is located at 10th Floor, North Tower, 2, Leboh Ampang, 50100 Kuala Lumpur.

The immediate parent bank and the ultimate holding company during the financial period are The Hongkong and Shanghai Banking Corporation Limited (HBAP) and HSBC Holdings plc, respectively.

The financial statements were approved and authorised for issue by the Board of Directors on 12 February 2019.

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 2016 in Malaysia. The financial statements incorporate those activities relating to Islamic Banking which have been undertaken by the Bank's Islamic subsidiary.

(i) Standards and amendments to published standards that are effective

The amendments to published standards that are effective and applicable to the Group and the Bank for the financial year beginning on 1 January 2018 are as follows:

- MFRS 9 'Financial Instruments'
- MFRS 15 'Revenue from Contracts with Customers'
- Amendments to MFRS 2 'Share-based Payment - Classification and Measurement of Share-based Payment Transactions'
- Amendments to MFRS 140 'Investment Property - Transfers of Investment Property'
- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'
- Annual Improvements to MFRSs 2014 - 2016 Cycle: MFRS 128 'Investments in Associates and Joint Ventures'

The Group and the Bank have adopted MFRS 9 and MFRS 15 for the first time in the 2018 financial statements, which resulted in changes in accounting policies. The detailed impact of change in accounting policies for MFRS 9 are set out in Note 3. There is no significant financial impact arising from the adoption of MFRS 15.

Other than that, the adoption of other amendments listed above did not have any impact on the current period or any prior period and is not likely to affect future periods.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (Cont'd)

(a) Statement of compliance (Cont'd)

(ii) Standards and amendments to published standards have been issued but not yet effective

The Group and the Bank will apply these standards, amendments to published standards from financial year beginning on/after 1 January 2019:

- MFRS 16 'Leases' supersedes MFRS 117 'Leases' and the related interpretations.

  Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

  MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" (ROU) of the underlying asset and a lease liability reflecting future lease payments for most leases. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost.

  The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest/profit expense recognised in profit or loss.

  For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

  Transitional impact

  MFRS 16 has an effective date for reporting beginning on or after 1 January 2019. MFRS 16 results in lessees accounting for most lease within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under MFRS 117 'Leases'. Lessees will recognise a right of use (ROU) asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under MFRS 117. At 1 January 2019, the Group and the Bank expect to adopt the standard using a modified retrospective approach where the cumulative effect of initially applying the standard is recognised an adjustment to the opening balance of retained earnings and comparatives are not restated. The implementation is expected to increase assets (ROU assets) and increase financial liabilities with no significant impact on net assets or retained earnings.

- IC Interpretation 23 'Uncertainty over Income Tax Treatments' provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

  If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

  IC Interpretation 23 will be applied retrospectively.

- Amendments to MFRS 128 'Long-term Interests in Associates and Joint Ventures' clarify that an entity should apply MFRS 9 'Financial Instruments' (including the impairment requirements) to long-term interests in an associate or joint venture, which are in substance form part of the entity's net investment, for which settlement is neither planned nor likely to occur in the foreseeable future.

  In addition, such long-term interest are subject to loss allocation and impairment requirements in MFRS 128.

  The amendments shall be applied retrospectively.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (Cont'd)

(a) Statement of compliance (Cont'd)

(ii) Standards and amendments to published standards have been issued but not yet effective (Cont'd)

- Amendments to MFRS 9 'Prepayment features with negative compensation' allow companies to measure some prepayable financial assets with negative compensation at amortised cost. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than the unpaid amounts of principal and interest. To qualify for amortised cost measurement, the negative compensation must be reasonable compensation for early termination of the contract, and the asset must be held within a 'held to collect' business model.

  The amendments will be applied retrospectively.

- Annual Improvements to MFRSs 2015 – 2017 Cycle:

  - Amendments to MFRS 3 'Business Combinations' clarify that when a party obtains control of a business that is a joint operation, the acquirer should account the transaction as a business combination achieved in stages. Accordingly it should remeasure its previously held interest in the joint operation (rights to the assets and obligations for the liabilities) at fair value on the acquisition date.

  - Amendments to MFRS 11 'Joint Arrangements' clarify that when a party obtains joint control of a business that is a joint operation, the party should not remeasure its previously held interest in the joint operation.

  - Amendments to MFRS 112 'Income Taxes' clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in profit or loss, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in profit or loss when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.

  - Amendments to MFRS 123 'Borrowing Costs' clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

- Amendments to MFRS 119 'Plan amendment, curtailment or settlement' requires an entity to use the updated actuarial assumptions from remeasurement of its net defined benefit liability or asset arising from plan amendment, curtailment or settlement, to determine current service cost and net interest for the remaining period after the change to the plan. The amendments will be applied prospectively.

(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:

- Structured liabilities
- Financial investments
- Property and equipment
- Derivatives and hedge accounting
- Financial liabilities designated at fair value through profit and loss

2 Basis of Preparation (Cont'd)

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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 4. 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 judgment 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's and the Bank's critical accounting policies where judgment is necessarily applied are those which relate to impairment of loans, advances and financing and the valuation of financial instruments (refer Note 6). 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 Changes in accounting policies

A. Adoption of MFRS 9 'Financial Instruments'

The Group and the Bank have applied MFRS 9 retrospectively with the date of initial application of 1 January 2018. In accordance with the transition provisions provided in MFRS 9, comparative information for 2017 was not restated and continued to be reported under the previous accounting policies governed under MFRS 139. The cumulative effects of initially applying MFRS 9 were recognised as an adjustment to the opening balances of retained earnings as at 1 January 2018.

(a) Classification and measurement of financial assets

Until 31 December 2017, financial assets were classified in the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, and available-for-sale (AFS) financial assets. Note 4(u) set out the details of accounting policies for classification and measurement of financial instruments under MFRS 139.

From 1 January 2018, the Group and the Bank apply the following MFRS 9's classification approach to all types of financial assets, including those that contain embedded derivative features:

- Investments in debt instruments: There are 3 subsequent measurement categories: amortised cost, fair value with changes either recognised through other comprehensive income (FVOCI) or through profit or loss (FVTPL).
- Investments in equity instruments: These instruments are always measured at fair value with changes in fair value presented in profit or loss. However, the Group and the Bank have made an irrevocable choice to present changes in fair value in other comprehensive income (OCI) for investments that are not held for trading.
- Embedded derivatives in financial asset host contracts: The Group and the Bank apply the classification and measurement of financial assets to the entire hybrid instrument for financial assets with embedded derivatives.

The new accounting policies for classification and measurement of financial instruments under MFRS 9 are set out in Note 4(g).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Changes in accounting policies (Cont'd)

A. Adoption of MFRS 9 'Financial Instruments'(Cont'd)

(a) Classification and measurement of financial assets (Cont'd)

To reflect this change in accounting policies, the Group and the Bank have made the following reclassification of financial assets upon adoption of MFRS 9:

(i) Reclassification of investment in debt securities from AFS to FVTPL
Investment in debt securities were reclassified from AFS to financial assets at FVTPL because their contractual cash flows do not represent solely payments of principal and interest (SPPI). Related fair value gains were transferred from AFS reserves, along with the related deferred tax expense impact, to retained earnings on 1 January 2018.

(ii) Reclassification of investment in non-trading equity securities from AFS to FVOCI
The Group and the Bank elected to present in OCI changes in the fair value of all its investments in equity securities previously classified as AFS, because these investments are neither held for trading nor arise from contingent consideration recognised by acquirer in business combination. As a result, investments in these equity securities were reclassified from AFS financial assets to financial assets at FVOCI. Related AFS reserves were reclassified to FVOCI reserve on 1 January 2018.

(b) Impairment

Until 31 December 2017, the Group and the Bank assessed the impairment of loans and receivables and AFS financial assets based on the incurred impairment loss model. Note 4(u) set out the details of accounting policies for impairment of financial assets under MFRS 139.

From 1 January 2018, the Group and the Bank apply expected credit loss (ECL) model to determine impairment on investment in debt instruments that are measured at amortised cost and at FVOCI and financial guarantee contracts. The new accounting policies for impairment under MFRS 9 are set out in Note 4(l).

The financial impact for the changes in accounting policies are disclosed in Note 3(i) to 3(iv).

B. Voluntary changes in accounting policies

While not necessarily required by the adoption of MFRS 9, the following voluntary changes in accounting policy and presentation have been made as a result of reviews carried out in conjunction with its adoption. The effect of presentational changes at 1 January 2018 is included in the reconciliation set out in note 3(ii) and comparatives have not been restated.

- The Group and the Bank have considered market practices for the presentation of certain financial liabilities which contain both deposit and derivative components. The Group and the Bank have concluded that a change in accounting policy and presentation from 'Trading liabilities' would be appropriate, since it would better align with the presentation of similar financial instruments by peers and therefore provide more relevant information about the effect of these financial liabilities on the Group's and the Bank's financial position and performance. As a result, rather than being classified as held for trading, the Group and the Bank designate these financial liabilities as at fair value through profit or loss since they are managed and their performance evaluated on a fair value basis. A further consequence of this change in presentation is that the effects of changes in the liabilities' credit risk will be presented in 'Other comprehensive income' with the remaining effect presented in profit or loss in accordance with group's accounting policy adopted in 2017 (following the adoption of the requirements in MFRS 9 relating to the presentation of gains and losses on financial liabilities designated at fair value).

- Cash collateral has been reclassified from 'Deposits and placements with banks and other financial institutions' to 'Other assets' and from 'Deposits and placements from banks and other financial institutions' to 'Other liabilities'. The change in presentation would be appropriate, since it would better align with the presentation of similar financial instruments by peers and therefore provide more relevant information. The change in presentation has had no effect on measurement of these items and therefore on retained profits for any period.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Changes in accounting policies

(i) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with MFRS 139 and MFRS 9 at 1 January 2018 are compared as follows:

	MFRS 139		*MFRS 9*	
Group	Measurement category	Carrying amount	Measurement category	Carrying amount
Financial assets		RM'000		RM'000
Cash and short term funds	Amortised cost (Loans and receivables)	10,313,776	Amortised cost	10,313,775
Securities purchased under resale agreements	Amortised cost (Loans and receivables)	1,964,930	Amortised cost	1,964,930
Deposits and placements with banks and other financial institutions	Amortised cost (Loans and receivables)	709,999	Amortised cost	618,215
Financial assets held-for-trading	HFT (Held-for-trading) [1]	1,988,719	Not applicable	-
Financial assets at fair value through profit and loss (FVTPL)	Not applicable	-	FVTPL	1,988,719
Financial investments available-for-sale	AFS (Available-for-sale) [2]	9,780,405	Not applicable	-
Financial investments at fair value through other comprehensive income (FVOCI)	Not applicable	-	FVOCI	9,602,998
Financial investments at fair value through other comprehensive income (FVOCI)	Not applicable	-	FVOCI (Designated)	177,407
Loans, advances and financing	Amortised cost (Loans and receivables)	51,979,654	Amortised cost	52,165,177
Derivative financial assets	FVTPL (Held-for-trading)	2,045,225	FVTPL	2,045,225
Statutory deposits with Bank Negara Malaysia	Amortised cost (Loans and receivables)	1,084,888	Amortised cost	1,084,888
Other assets	Amortised cost (Loans and receivables)	331,500	Amortised cost	423,220
Total financial assets		80,199,096		80,384,554
Financial liabilities				
Deposits from customers	Amortised cost	56,551,151	Amortised cost	56,551,151
Deposits and placements from banks and other financial institutions	Amortised cost	5,353,609	Amortised cost	4,671,352
Bills payable	Amortised cost	318,009	Amortised cost	318,009
Multi-Currency Sukuk Programme	FVTPL (Designated)	1,252,829	FVTPL (Designated)	1,252,829
Subordinated liabilities	Amortised cost	1,083,903	Amortised cost	1,083,903
Derivative financial liabilities	HFT (Held-for-trading)	2,096,405	FVTPL	2,096,405
Structured liabilities designated at fair value through profit and loss	FVTPL	-	FVTPL	2,850,034
Other liabilities	Amortised cost	4,682,041	Amortised cost	2,524,872
Total financial liabilities		71,337,947		71,348,555

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Changes in accounting policies

(i) Classification and measurement of financial instruments (Cont'd)

	MFRS 139		*MFRS 9*	
Bank	Measurement category	Carrying amount	Measurement category	Carrying amount
Financial assets		RM'000		RM'000
Cash and short term funds	Amortised cost (Loans and receivables)	8,879,053	Amortised cost	8,879,053
Securities purchased under resale agreements	Amortised cost (Loans and receivables)	1,964,930	Amortised cost	1,964,930
Deposits and placements with banks and other financial institutions	Amortised cost (Loans and receivables)	3,703,498	Amortised cost	3,611,714
Financial assets held-for-trading	HFT (Held-for-trading)	1,988,719	Not applicable	-
Financial assets at fair value through profit and loss (FVTPL)	Not applicable	-	FVTPL	1,988,719
Financial investments available-for-sale	AFS (Available-for-sale)	7,559,361	Not applicable	-
Financial investments at fair value through other comprehensive income (FVOCI)	Not applicable	-	FVOCI	7,381,954
Financial investments at fair value through other comprehensive income (FVOCI)	Not applicable	-	FVOCI (Designated)	177,407
Loans, advances and financing	Amortised cost (Loans and receivables)	38,595,851	Amortised cost	38,702,991
Derivative financial assets	FVTPL (Held-for-trading)	2,045,005	FVTPL	2,045,005
Statutory deposits with Bank Negara Malaysia	Amortised cost (Loans and receivables)	723,526	Amortised cost	723,526
Other assets	Amortised cost (Loans and receivables)	472,398	Amortised cost	564,118
Total financial assets		65,932,341		66,039,417
Financial liabilities				
Deposits from customers	Amortised cost	46,516,647	Amortised cost	46,516,647
Deposits and placements from banks and other financial institutions	Amortised cost	4,432,767	Amortised cost	3,750,510
Bills payable	Amortised cost	301,331	Amortised cost	301,331
Subordinated liabilities	Amortised cost	1,083,903	Amortised cost	1,083,903
Derivative financial liabilities	HFT (Held-for-trading)	2,109,255	FVTPL	2,109,255
Structured liabilities designated at fair value through profit and loss	FVTPL	-	FVTPL	2,570,059
Other liabilities	Amortised cost	4,221,857	Amortised cost	2,340,840
Total financial liabilities		58,665,760		58,672,545

[1] FVTPL - Fair Value through Profit and Loss
[2] FVOCI - Fair Value through Other Comprehensive Income

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Changes in accounting policies (Cont'd)

(ii) Reconciliation of statement of financial position balances from MFRS 139 to MFRS 9

The following table is a reconciliation of the carrying amount in the Group and the Bank's Statement of Financial Position from MFRS 139 to MFRS 9 as at 1 January 2018:

	MFRS 139 carrying amount as at 31 December 2017	Note 3A MFRS 9 adjustments Reclassification	Remeasurement	Note 3B Other Changes in Classificiation	MFRS 9 carrying amount as at 1 January 2018	Retained profits impact as at 1 January 2018
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets						
Cash and short term funds	10,313,776	-	(1)	-	10,313,775	(1)
Securities purchased under resale agreements	1,964,930	-	-	-	1,964,930	-
Deposits and placements with banks and other financial institutions	709,999	-	(64)	(91,720)	618,215	(64)
Financial assets held-for-trading	1,988,719	(1,988,719)	-	-	-	-
Financial assets at fair value through profit and loss (FVTPL)	-	1,988,719	-	-	1,988,719	-
Financial investments available-for-sale	9,780,405	(9,780,405)	-	-	-	-
Financial investments at fair value through own comprehensive income (FVOCI)	-	9,780,405	-	-	9,780,405	-
Loans, advances and financing	51,979,654	-	185,523	-	52,165,177	185,523
Derivative financial assets	2,045,225	-	-	-	2,045,225	-
Statutory deposits with Bank Negara Malaysia	1,084,888	-	-	-	1,084,888	-
Other assets	331,500	-	-	91,720	423,220	-
Deferred tax assets	103,105	-	(214)	-	102,891	-
Total change to financial asset balances, reclassification and remeasurement at 1 January 2018	80,302,201	-	185,244	-	80,487,445	185,458
Liabilities						
Deposits from customers	56,551,151	-	-	-	56,551,151	-
Deposits and placements from banks and other financial institutions	5,353,609	-	-	(682,257)	4,671,352	-
Bills payable	318,009	-	-	-	318,009	-
Multi-Currency Sukuk Programme	1,252,829	-	-	-	1,252,829	-
Subordinated liabilities	1,083,903	-	-	-	1,083,903	-
Derivative financial liabilities	2,096,405	-	-	-	2,096,405	-
Structured liabilities designated at fair value through profit and loss	-	-	-	2,850,034	2,850,034	-
Other liabilities	4,682,041	-	10,608	(2,167,777)	2,524,872	10,608
Provision for taxation	74,400	-	41,705	-	116,105	41,705
Total change to financial liabilities balances, reclassification and remeasurement at 1 January 2018	71,412,347	-	52,313	-	71,464,660	52,313

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Changes in accounting policies (Cont'd)

(ii) Reconciliation of statement of financial position balances from MFRS 139 to MFRS 9 (Cont'd)

	MFRS 139 carrying amount as at 31 December 2017	Note 3A MFRS 9 adjustments Reclassification	Remeasurement	Note 3B Other Changes in Classificiation	MFRS 9 carrying amount as at 1 January 2018	Retained profits impact as at 1 January 2018
Bank	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets						
Cash and short term funds	8,879,053	-	-	-	8,879,053	-
Securities purchased under resale agreements	1,964,930	-	-	-	1,964,930	-
Deposits and placements with banks and other financial institutions	3,703,498	-	(64)	(91,720)	3,611,714	(64)
Financial assets held-for-trading	1,988,719	(1,988,719)	-	-	-	-
Financial assets at fair value through profit and loss (FVPL)	-	1,988,719	-	-	1,988,719	-
Financial investments available-for-sale	7,559,361	(7,559,361)	-	-	-	-
Financial investments at fair value through own comprehensive income (FVOCI)	-	7,559,361	-	-	7,559,361	-
Loans, advances and financing	38,595,851	-	107,140	-	38,702,991	107,140
Derivative financial assets	2,045,005	-	-	-	2,045,005	-
Statutory deposits with Bank Negara Malaysia	723,526	-	-	-	723,526	-
Other assets	472,398	-	-	91,720	564,118	-
Deferred tax assets	94,468	-	(64)	-	94,404	-
Total change to financial asset balances, reclassification and remeasurement at 1 January 2018	66,026,809	-	107,012	-	66,133,821	107,076
Liabilities						
Deposits from customers	46,516,647	-	-	-	46,516,647	-
Deposits and placements from banks and other financial institutions	4,432,767	-	-	(682,257)	3,750,510	-
Bills payable	301,331	-	-	-	301,331	-
Subordinated liabilities	1,083,903	-	-	-	1,083,903	-
Derivative financial liabilities	2,109,255	-	-	-	2,109,255	-
Structured liabilities designated at fair value through profit and loss	-	-	-	2,570,059	2,570,059	-
Other liabilities	4,221,857	-	6,785	(1,887,802)	2,340,840	6,785
Provision for taxation	74,400	-	23,948	-	98,348	23,948
Total change to financial liabilities balances, reclassification and remeasurement at 1 January 2018	58,740,160	-	30,733	-	58,770,893	30,733

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Changes in accounting policies (Cont'd)

(iii) The total impacts of the changes in accounting policies on the Group's and the Bank's reserves as at 1 January 2018 are as follows:

	Group	Bank
Retained profits	**RM'000**	**RM'000**
As previously reported at 31 December 2017	7,562,878	6,641,367
Impact of adoption of MFRS 9 (net of tex effect)		
Decrease in loss allowances of loans, advances and financing	185,523	107,140
Increase in loss allowances of other liabilities	(10,608)	(6,785)
Remeasurement in provision for taxation	(41,705)	(23,948)
Reclassification of allowances to regulatory reserve upon adoption of MFRS 9	(43,680)	(27,720)
Others	(1,484)	(731)
Adjustment to retained earnings upon adoption of MFRS 9	88,046	47,956
As restated at 1 January 2018	7,650,924	6,689,323
FVOCI reserve		
As previously reported at 31 December 2017	-	-
Impact of adoption of MFRS 9 (net of tex effect)		
Reclassification of investment in AFS to FVOCI	131,657	131,478
Remeasurement of FVOCI reserve	526	400
Adjustment to FVOCI upon adoption of MFRS 9	132,183	131,878
As restated at 1 January 2018	132,183	131,878
Own credit reserve		
As previously reported at 31 December 2017	230	-
Impact of adoption of MFRS 9 (net of tex effect)		
Remeasurement of own credit reserve upon adoption of MFRS 9	679	203
As restated at 1 January 2018	909	203
Regulatory reserve		
As previously reported at 31 December 2017	284,000	250,000
Impact of adoption of MFRS 9 (net of tex effect)		
Reclassification of allowances from retained profits upon adoption of MFRS 9	43,680	27,720
As restated at 1 January 2018	327,680	277,720

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Changes in accounting policies (Cont'd)

(iv) Reconciliation of impairment allowance balance from MFRS 139 to MFRS 9

The following table reconciles the prior year's closing ECL allowance for the Group and the Bank measured in accordance with the MFRS 139 incurred loss model to the new impairment allowance measured in accordance with the MFRS 9 expected loss model at 1 January 2018:

	Impairment allowances under MFRS 139	Reclassification	Remeasurement	Impairment allowances under MFRS 9
	RM'000	RM'000	RM'000	RM'000
Group				
Amortised cost (Loans and receivables) (MFRS 139)/				
Amortised cost (MFRS 9)				
Cash and short term funds	-	-	1	1
Loans, advances and financing	814,375	-	(185,523)	628,852
	814,375	-	(185,522)	628,853
Amortised cost (MFRS 139/MFRS 9)				
Deposits and placements with banks and other financial institutions	-	-	64	64
Other liabilities (including financial guarantee contracts)	-	-	10,608	10,608
	-	-	10,672	10,672
FVOCI (MFRS 139/MFRS 9)				
FVOCI reserve	-	-	526	526
Total	**814,375**	**-**	**(174,324)**	**640,051**
Bank				
Amortised cost (Loans and receivables) (MFRS 139)/				
Amortised cost (MFRS 9)				
Loans, advances and financing	458,568	-	(107,140)	351,428
Amortised cost (MFRS 139/MFRS 9)				
Deposits and placements with banks and other financial institutions	-	-	64	64
Other liabilities (including financial guarantee contracts)	-	-	6,785	6,785
	-	-	6,849	6,849
FVOCI (MFRS 139/MFRS 9)				
FVOCI reserve	-	-	400	400
Total	**458,568**	**-**	**(99,891)**	**358,677**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 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 subsidiaries made up to 31 December 2018.

(i) Subsidiaries

Subsidiaries are all entities, including structured entities, controlled by the Group. 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 controls and consequently consolidates 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 to direct activities over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group and the Bank also consider having 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. They are deconsolidated from the date that control ceases.

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.

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.

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.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with MFRS 139 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

(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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Significant Accounting Policies (Cont'd)

(a) Basis of consolidation (Cont'd)

(iv) Loss of control

Upon the loss of control of a subsidiary, the Group derecognises 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 recognised 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) 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 direct 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 as described in MFRS 128.

(vi) 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 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 functional currency 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 FVOCI (comparative – AFS) equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

4 Significant Accounting Policies (Cont'd)

(c) Interest income and expense/Islamic financing income and expense

Interest income and expense/Islamic financing income and expense for all financial instruments of the Group and the Bank, except those classified as financial instruments designated at fair value through profit or loss (FVTPL) are recognised in "interest income" and "interest expense" and "Income from Islamic Banking Operation" in the statement of profit or loss and other comprehensive income using the effective interest/profit rate method. The effective interest/profit 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 expense/Islamic financing income or expense over the relevant period.

The effective interest/profit 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/profit rate, the Group and the Bank estimate 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/profit on impaired financial assets of the Group and the Bank is recognised using the rate of interest/profit used to discount the future cash flows for the purpose of measuring the impairment loss.

Financing income and expense from Islamic Banking operations are recognised on an accrual basis in accordance with the principles of Shariah.

Interest/Financing income and expense of the Group and the Bank presented in the statement of profit and loss and other comprehensive income include:

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

(d) 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/financing income' Note 4(c).

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 approve the dividend for unlisted equity securities.

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities FVTPL, together with the related interest income and expense; and it also includes all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities measured at fair value through profit or loss.

(d) Fees and commission, net trading income and other operating income (Cont'd)

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/profit income, interest/profit 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/profit arising from debt securities issued by the Group and the Bank and derivatives managed in conjunction with those debt securities, which is recognised in 'Interest income and expense/Islamic financing income and expense (Note 4(c))'.

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

(e) 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 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 financial 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 FVOCI (comparative – AFS) 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.

4 Significant Accounting Policies (Cont'd)

(f) 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.

(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.

(ii) Financial instruments categories and subsequent measurement

The Group and the Bank categorise financial instruments as follows:

- financial instruments measured at amortised cost (Note 4(h));
- financial assets measured at fair value through other comprehensive income (FVOCI) (Note 4(i));
- equity securities measured at fair value with fair value movements presented in OCI (Note 4(j)); or
- financial instruments designated at fair value through profit or loss (FVTPL) (Note 4(k)).

The Group and the Bank classify their financial liabilities, as measured at amortised cost or designated at fair value through profit or loss (See Notes 4(g)(vi), 4(k) and 4(q)).

(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 their 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 there is currently a legally 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

(g) Financial instruments (Cont'd)

(iv) Offsetting financial assets/liabilities and income/expenses (Cont'd)

The 'Gross amounts not offset in the statement of financial position' for derivatives and securities purchased under resale agreements and similar arrangements include transactions where:

- the counterparty has an offsetting exposure with the Group and the Bank and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and
- cash and non-cash collaterals are received and pledged in respect of the transactions described above.

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) Valuation of financial instruments

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 when the inputs become observable, the transaction matures or is closed out, or when the Group and the Bank enter into an offsetting transaction.

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

Subsequent to initial recognition, the fair values of financial instruments measured at fair value are measured in accordance with the Group's and the Bank's valuation methodologies, which are described in Note 6(b)(ii).

(vi) Derivative financial instruments and hedge accounting

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value, with changes in fair value generally recorded in the income statement. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. This includes embedded derivatives in financial liabilities which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis. Where the derivatives are managed with debt securities issued by the Group and the Bank that are designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting

When derivatives are held for risk management purposes, they are designated in hedge accounting relationships where the required criteria for documentation and hedge effectiveness are met. The Group and the Bank enters into fair value hedges, cash flow hedges or hedges of net investments in foreign operations as appropriate to the risk being hedged.

4 Significant Accounting Policies (Cont'd)

(g) Financial instruments (Cont'd)

(vi) Derivative financial instruments and hedge accounting (Cont'd)

Hedge accounting (Cont'd)

- *Fair value hedge*

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but results in recognising changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognised in the income statement. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued; the cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

- *Cash flow hedge*

The effective portion of gains and losses on hedging instruments is recognised in other comprehensive income; the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognised immediately in the income statement within 'Other Operating Income'. The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. In hedges of forecast transactions that result in recognition of a non-financial asset or liability, previous gains and losses recognised in other comprehensive income are included in the initial measurement of the asset or liability. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

(h) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as most loans, advances and financing to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income.

The Group and the Bank may commit to underwrite loans, advances and financing on fixed contractual terms for specified periods of time. When the loans, advances and financing arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a derivative. When the Group and the Bank intend to hold the loans, advances and financing, the related commitment is included in the impairment calculations set out in Note 4(l). They are derecognised when either the borrower repays its obligations, or the loans, advances and financing are sold or written off, or substantially all the risks and rewards of ownership are transferred.

For financing under the Syndicated Investment Account for Financing/Investment Agency Account (SIAF/IAA) arrangements, the Group and Bank recognise the financing to the extent that the financing qualify for derecognition by HBMS. Refer to accounting policy Note 4(g)(iii) on derecognition of financial assets.

4 Significant Accounting Policies (Cont'd)

(h) Financial instruments measured at amortised cost (Cont'd)

Sale and repurchase agreements

When debt 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 resell (reverse repos) are not recognised on the balance sheet and an asset is recorded in respect of the initial consideration paid. Non-trading repos and reverse repos are measured at amortised cost. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement. Contracts that are economically equivalent to reverse repurchase or repurchase agreements (such as sales or purchases of debt securities entered into together with total return swaps with the same counterparty) are accounted for similarly to, and presented together with, reverse repurchase or repurchase agreements.

Financial liabilities measured at amortised cost

Financial liabilities that are not classified as fair value through profit or loss fall into this category and are measured at amortised cost. The financial liabilities measured at amortised cost are deposits from customers, deposits and placement from banks and other financial institutions, bills payable, other liabilities and subordinated liabilities.

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. 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 Group and the Bank are measured at amortised cost using the effective interest/profit rate method, except for the portions which are fair value hedged, which are adjusted for the fair value gains or losses attributable to the hedged risks. Interest expense/profits payable on subordinated liabilities of the Group and the Bank are recognised on an accrual basis.

(i) Financial assets measured at fair value through other comprehensive income (FVOCI)

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

(j) Equity securities measured at fair value with fair value movements presented in OCI

The equity securities for which fair value movements are shown in OCI are business facilitation and other similar investments where the Group and the Bank hold the investments other than to generate a capital return. Gains or losses on the derecognition of these equity securities are not transferred to profit or loss.

4 Significant Accounting Policies (Cont'd)

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

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

- the use of the designation removes or significantly reduces an accounting mismatch; and
- when a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Designated financial assets are recognised when the Group and the Bank enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when the Group and the Bank enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement in 'Net income/(expenses) from financial liabilities designated at fair value'.

Under the above criterion, the main classes of financial instruments designated by the Group and the Bank are:

Long-term debt issues (including Multi-currency sukuk programme)

The interest/profit and/or foreign exchange exposure on certain fixed rate debt securities issued has been matched with the interest/profit and/or foreign exchange exposure on certain swaps as part of a documented risk management strategy.

Structured liability designated at fair value through profit or loss

As at 1 January, the Group and the Bank have changed the accounting policy, whereby structured liabilities of the Group and the Bank which are not principal guaranteed and designated at fair value was reclassified from Other Liabilities to Structured Liabilities Designated at Fair Value. Please refer to Note 3.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Significant Accounting Policies (Cont'd)

(l) Impairment of amortised cost and FVOCI financial assets

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

(i) Credit-impaired (stage 3)

The Group and the Bank determine that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- Qualitative criteria
  - contractual payments of either principal or interest/profit are past due for more than 90 days.

- Quantitative criteria
  - there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
  - the loan, advance and financing is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due. Therefore the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans, advances and financing which are considered defaulted or otherwise credit-impaired. Interest/financing income is recognised by applying the effective interest/profit rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

(ii) Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans/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.

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, write-off may be earlier.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Significant Accounting Policies (Cont'd)

(l) Impairment of amortised cost and FVOCI financial assets (Cont'd)

(ii) Write-off (Cont'd)

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 machinery 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 issue 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's and the Bank's securities financing business (securities lending and borrowing or repos and reverse repos).

(iii) Renegotiation

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

A loans, advances and financing that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loans, advances and financing is a substantially different financial instrument. The renegotiated loans, advances and financing will only be reclassified as unimpaired when restructured payment is received and observed for a minimum period of 12 months.

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

4 Significant Accounting Policies (Cont'd)

(l) Impairment of amortised cost and FVOCI financial assets (Cont'd)

(iv) Loans, advances and financing modifications that are not credit-impaired

Loans, advances and financing modifications that are not identified as renegotiated are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan/financing contract) such that the Group's and the Bank's rights to the cash flows under the original contract have expired, the old loans, advances and financing is derecognised and the new loans, advances and financing is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided. The Group and the Bank also assess whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

(v) Significant increase in credit risk (Stage 2)

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

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default (PD) which encompasses a wide range of information including the obligor's customer risk rating, macroeconomic condition forecasts and credit transition probabilities. Significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at reporting date (or that the origination PD has doubled in the case of origination Credit Risk Rating (CRR) greater than 3.3). The significance of changes in PD was informed by expert credit risk judgment, referenced to historical credit migrations and to relative changes in external market rates. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	**Significance trigger – PD to increase by**
0.1-1.2	15 bps
2.1-3.3	30 bps
Greater than 3.3 and not impaired	2x

For loans, advances and financing originated prior to the implementation of MFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle (TTC) PDs and TTC migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:

4 Significant Accounting Policies (Cont'd)

(l) Impairment of amortised cost and FVOCI financial assets (Cont'd)

(v) Significant increase in credit risk (Stage 2) (Cont'd)

Origination CRR	Additional significance criteria – Number of CRR grade notches deterioration required to identify as significant credit deterioration (Stage 2) (> or equal to)
0.1	5 notches
1.1-4.2	4 notches
4.3-5.1	3 notches
5.2-7.1	2 notches
7.2-8.2	1 notch
8.3	0 notch

Please refer to Note 5(b)(viii) for the 23-grade scale used for CRR,

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

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by product. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgment is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

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

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

(l) Impairment of amortised cost and FVOCI financial assets (Cont'd)

(vii) Movement between stages

Financial assets can be transferred between the different categories depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, advances and financing, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans, advances and financing will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans, advances and financing that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans, advances and financing that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

(viii) Measurement of ECL

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

In general, the Group and the Bank calculate ECL using three main components, a probability of default, a loss given default and the exposure at default (EAD).

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

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The Loss Given Default (LGD) represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow (DCF) methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest/profit. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability-weighted by reference to the three economic scenarios applied more generally by the Group and the Bank and the judgment of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies is approximated and applied as an adjustment to the most likely outcome.

(l) Impairment of amortised cost and FVOCI financial assets (Cont'd)

(ix) Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Group and the Bank are exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the Group's and the Bank's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the Group and the Bank remain exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan/financing commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

(x) Forward-looking economic inputs

The Group and the Bank will in general apply three forward-looking global economic scenarios determined with reference to external forecast distributions, the Consensus Economic Scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. They represent a 'most likely outcome' (the Central scenario) and two, less likely, 'Outer' scenarios on either side of the Central, referred to as an Upside and a Downside scenario respectively. The Central scenario is used by the annual operating planning process and, with regulatory modifications, will also be used in enterprise-wide stress tests. The Upside and Downside are constructed following a standard process supported by a scenario narrative reflecting the Group's and the Bank's current top and emerging risks. The relationship between the Outer scenarios and Central scenario will generally be fixed with the Central scenario being assigned a weighting of 80% and the Upside and Downside scenarios 10% each, with the difference between the Central and Outer scenarios in terms of economic severity being informed by the spread of external forecast distributions among professional industry forecasts. The Outer scenarios are economically plausible, internally consistent states of the world and will not necessarily be as severe as scenarios used in stress testing. The period of forecast is five years, after which the forecasts will revert to a view based on average past experience. The economic factors include, but are not limited to, gross domestic product, unemployment, interest rates, inflation and commercial property prices across all the countries in which the HSBC Group operates.

In general, the consequences of the assessment of credit risk and the resulting ECL outputs will be probability-weighted using the standard probability weights. This probability weighting may be applied directly or the effect of the probability weighting determined on a periodic basis, at least annually, and then applied as an adjustment to the outcomes resulting from the central economic forecast. The central economic forecast is updated quarterly.

The Group and the Bank recognise that the Consensus Economic Scenario approach using three scenarios will be insufficient in certain economic environments. Additional analysis may be requested at management's discretion, including the production of extra scenarios. If conditions warrant, this could result in a management overlay for economic uncertainty which is included in the ECL estimates.

4 Significant Accounting Policies (Cont'd)

(l) Impairment of amortised cost and FVOCI financial assets (Cont'd)

(xi) Critical accounting estimates and judgments

In determining ECL, management is required to exercise judgment in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. Judgment has been applied in determining the lifetime and point of initial recognition of revolving facilities.

The PD, LGD and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience, but given that MFRS 9 requirements have only just been applied, there has been little time available to make these comparisons. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions, remain subject to review and refinement. This is particularly relevant for lifetime PDs, which have not been previously used in regulatory modelling and for the incorporation of 'Upside scenarios' which have not generally been subject to experience gained through stress testing.

The exercise of judgment in making estimations requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole are sensitive. Note 5(b)(i) set out the Central scenario in relation to the Group's and the Bank's top and emerging risks, informed by consensus forecasts of professional industry forecasters. The adjustment from the ECL determined by using the Central scenario alone, which is used to calculate an unbiased expected loss, provides an indication of the overall sensitivity of ECL to different economic assumptions.

(xii) Grouping of instruments for ECL measured on collective basis

ECL may be determined on collective or individual basis for the following:
- perform assessment of significant increases in credit risk
- determining loss allowance measurement

This disclosure is applicable for both general 3-stage approach and simplified approach.

The following factors are considered when computing ECL:
- availability of reasonable and supportable information that is more forward-looking than past due information without undue cost or effort, which considers comprehensive credit risk information.
- availability of credit risk information for particular groups of financial instruments vs individual instruments
- shared credit risk characteristics. Example as follows:
  - instrument type
  - credit risk ratings
  - collateral type
  - date of initial recognition
  - remaining term to maturity
  - industry
  - geographical location of debtor
  - the value of collateral relative to the financial asset if it has impact to probability of a default occurring

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Significant Accounting Policies (Cont'd)

(m) Property and equipment

(i) Land and buildings

Land and buildings held 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 impairment losses.

Revaluation are performed annually by independent professional qualified valuers, on a market basis, with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value. Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each financial year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of tax, is reclassified from revaluation reserve to retained earnings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset.

The gains or losses on disposal of land and buildings is determined by comparing the proceeds from disposal with the carrying amount of the land and buildings and is recognised net within "other operating income" 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 land and buildings 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

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

The fair value are within level 2 of the fair value hierarchy. The fair value have been derived using the sales comparison approach.

(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 7 years
Computer equipment	4 to 5 years
Motor vehicles	5 years

Additions to equipment costing RM1,000 and below are expensed to profit or loss in the month of purchase. For those assets costing more than RM1,000, it will be capitalised and depreciated at the above rates.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Significant Accounting Policies (Cont'd)

(m) Property and equipment (Cont'd)

(ii) Equipment (Cont'd)

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" 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.

(n) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group or the Bank as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss under 'Establishment related expenses' on a straight-line basis over the period of the lease.

(o) 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.

(p) Bills payable

Bills payable represents bills payable to various beneficiaries arising from the sale of bank drafts, demand drafts, cashier's orders and certified cheques.

(q) Provisions, contingent liabilities and financial guarantees contracts

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Liabilities under financial guarantees contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable.

Financial guarantees contracts are subsequently measured at the higher of the amount determined in accordance with the expected credit loss model under MFRS 9 'Financial instruments' and the amount initially recognised less cumulative amount of income recognised in accordance with the principles of MFRS 15 'Revenue from Contracts with Customers', where appropriate.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Significant Accounting Policies (Cont'd)

(r) 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 at the amounts expected to be paid when the liabilities are settled 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 profit or loss and other comprehensive income as incurred.

(iii) Termination benefits

Termination benefits where applicable are payable when employment is terminated by the Group or the Bank for mutual or voluntary separation. The Group and the Bank recognise termination benefits when the Group and the Bank recognises costs for a restructuring that is within the scope of MFRS 137 'Provisions, Contingent Liabilities and Contingent Assets' and involves the payment of termination benefits. In the case of voluntary separation, the termination benefits are estimated based on the number of employees expected to apply and be accepted for the separation .

(s) Share based payments

The Bank's ultimate holding company operates a number of equity-settled share based payment arrangements with the Bank's employees as compensation for services provided by the 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 equity. The credit to equity is treated as capital contribution as the ultimate holding company is compensating the Bank's employees with no expense to the Bank. 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Significant Accounting Policies (Cont'd)

(s) Share based payments (Cont'd)

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.

Where the ultimate holding company recharges the Bank for the equity instruments granted, the recharge is recognised over the vesting period.

(t) 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 year.

(u) Accounting policies applicable prior to 1 January 2018

(i) Financial instruments measured at amortised cost

Loans, advances and financing to banks and customers, held-to-maturity investments and most financial liabilities are measured at amortised cost. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loans, advances and financing (Refer Note 4(g)(v)) through the recognition of interest income, unless the loans, advances and financing becomes impaired.

The Group and the Bank may commit to underwriting loans, advances and financing on fixed contractual terms for specified periods of time. When the loans, advances and financing arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a derivative. When the Group and the Bank intend to hold the loans, advances and financing, a provision on the loans, advances and financing commitment is only recorded where it is probable that the Group and the Bank will incur a loss.

Impairment of loans, advances and financing

Losses for impaired loans, advances and financing are recognised when there is objective evidence that impairment of a loans, advances and financing or portfolio of loans, advances and financing has occurred. Losses which may arise from future events are not recognised.

Individually assessed loans, advances and financing

The factors considered in determining whether a loan, advance and financing is individually significant for the purposes of assessing impairment include the size of the loan, advance and financing, the number of loans, advances and financing in the portfolio, the importance of the individual loan, advance and financing relationship and how this is managed. Loans, advances and financing that are determined to be individually significant will be individually assessed for impairment, except when volumes of defaults and losses are sufficient to justify treatment under a collective methodology.

Loans, advances and financing considered as individually significant are typically to corporate and commercial customers, are for larger amounts and are managed on an individual basis. For these loans, advances and financing,

(u) Accounting policies applicable prior to 1 January 2018 (Cont'd)

(i) Financial instruments measured at amortised cost (Cont'd)

Individually assessed loans, advances and financing (Cont'd)

the Group and the Bank consider on a case-by-case basis at each balance sheet date whether there is any objective evidence that a loan, advance and financing is impaired.

The determination of the realisable value of security is based on the most recently updated market value at the time the impairment assessment is performed. The value is not adjusted for expected future changes in market prices, though adjustments are made to reflect local conditions such as forced sale discounts.

Impairment losses are calculated by discounting the expected future cash flows of a loans, advances and financing, which include expected future receipts of contractual interest, at the loans, advances and financing's original effective interest rate or an approximation thereof, and comparing the resultant present value with the loans, advances and financing's current carrying amount.

Collectively assessed loans and advances

Impairment is assessed collectively to cover losses which have been incurred but have not yet been identified on loans, advances and financing subject to individual assessment or for homogeneous groups of loans, advances and financing that are not considered individually significant, which are generally retail lending portfolios.

Incurred but not yet identified impairment

Individually assessed loans, advances and financing for which no evidence of impairment has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for a collective impairment assessment. This assessment captures impairment losses that the Group and the Bank have incurred as a result of events occurring before the balance sheet date that the Group and the Bank are not able to identify on an individual loan, advance and financing basis, and that can be reliably estimated. When information becomes available that identifies losses on individual loans, advances and financing within a group, those loans, advances and financing are removed from the group and assessed individually.

Homogeneous groups of loans, advances and financing

Statistical methods are used to determine collective impairment losses for homogeneous groups of loans, advances and financing not considered individually significant. The methods used to calculate collective allowances are set out below:

- When appropriate empirical information is available, the Group and the Bank utilise roll-rate methodology, which employs statistical analyses of historical data and experience of delinquency and default to reliably estimate the amount of the loans, advances and financing that will eventually be written off as a result of events occurring before the balance sheet date. Individual loans, advances and financing are grouped using ranges of past due days, and statistical estimates are made of the likelihood that loans, advances and financing in each range will progress through the various stages of delinquency and become irrecoverable. Additionally, individual loans are segmented based on their credit characteristics, such as industry sector, loan grade or product. In applying this methodology, adjustments are made to estimate the periods of time between a loss event occurring, for example because of a missed payment, and its confirmation through write-off (known as the loss identification period). Current economic conditions are also evaluated when calculating the appropriate level of allowance required to cover inherent loss. In certain highly developed markets, models also take into account behavioural and account management trends as revealed in, for example bankruptcy and rescheduling statistics.

4 Significant Accounting Policies (Cont'd)

(u) Accounting policies applicable prior to 1 January 2018 (Cont'd)

(i) Financial instruments measured at amortised cost (Cont'd)

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

- 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, or a discounted cash flow model. Where a basic formulaic approach is undertaken, the period between a loss event occurring and its identification is estimated by local management, and is typically between six and 12 months.

Write-off of loans, advances and financing

Loans, advances and 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, advances and 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.

Reversals 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 loans, advances and financing impairment allowance account accordingly. The write-back is recognised in the income statement.

Assets acquired in exchange for loans, advances and financing

When non-financial assets acquired in exchange for loans, advances and financing as part of an orderly realisation are held for sale, these assets are recorded as 'Assets held for sale'.

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 for measurement purposes once a minimum number of required payments has been received. Where collectively assessed loans, advances and financing portfolios include significant levels of renegotiated loans/financing, these loans/financing are segregated from other parts of the loans, advances and financing portfolio for the purposes of collective impairment assessment to reflect their risk profile.

Loans, advances and 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, advances and financing that have been classified as renegotiated retain this classification until maturity or derecognition. A loan, advance and 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 is substantially a different financial instrument. Any new loans, advances and financing that arise following derecognition events will continue to be disclosed as renegotiated loans/financing and are assessed for impairment as above.

4 Significant Accounting Policies (Cont'd)

(u) Accounting policies applicable prior to 1 January 2018 (Cont'd)

(i) Financial instruments measured at amortised cost (Cont'd)

Non-trading reverse repurchase, repurchase and similar agreements

When debt 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 resell (reverse repos) are not recognised on the balance sheet and an asset is recorded in respect of the initial consideration paid. Non-trading repos and reverse repos are measured at amortised cost. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement.

Contracts that are economically equivalent to reverse repurchase or repurchase agreements (such as sales or purchases of debt securities entered into together with total return swaps with the same counterparty) are accounted for similarly to, and presented together with, reverse repurchase or repurchase agreements.

(ii) Financial instruments measured at fair value

Available-for-sale financial assets

Available-for-sale financial assets are recognised on the trade date when the Group and the Bank enter into contractual arrangements to purchase them, and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income until the assets are either sold or become impaired. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses from financial investments'.

Impairment of available-for-sale financial assets

Available-for-sale financial assets are assessed at each balance sheet date for objective evidence of impairment. Impairment losses are recognised in the income statement within 'Loan impairment charges and other credit risk provisions' for debt instruments and within 'Gains less losses from financial investments' for equities.

Available-for-sale debt securities

In assessing 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 the recovery of future cash flows. A subsequent decline in the fair value of the instrument is recognised in the income statement when there is objective evidence of impairment as a result of decreases in the estimated future cash flows. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised 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 income statement, or the instrument is no longer impaired, the impairment loss is reversed through the income statement.

Available-for-sale equity securities

A significant or prolonged decline in the fair value of the equity below its cost is 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 continuous period in which the fair value of the asset has been below its original cost at initial recognition.

All subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the income statement to the extent that further cumulative impairment losses have been incurred. Impairment losses recognised on the equity security are not reversed through the income statement.

4 Significant Accounting Policies (Cont'd)

(u) Accounting policies applicable prior to 1 January 2018 (Cont'd)

(ii) Financial instruments measured at fair value (Cont'd)

Trading assets and trading liabilities

Treasury bills, loans, advances and financing to and from customers, placings with and by banks, debt securities, structured deposits, 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 are 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 (Note 4(d))'.

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.

Structured investment/Islamic structured placement is classified as trading liabilities as they are initiated by trading desk for trading and not for funding purpose and the market risk of the embedded derivative is actively managed as part of the trading portfolio.

Financial assets at fair value through profit or loss

The Group and the Bank classified financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, i.e. are held for trading. Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, interest/profit and dividend income are recognised in profit or loss in the period in which the changes arise.

Financial guarantee contracts

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable.

Financial guarantee contracts are subsequently measured at the higher of the amount determined in accordance with MFRS 137 'Provisions, contingent liabilities and contingent assets' and the amount initially recognised less cumulative amortisation, where appropriate.

4 Significant Accounting Policies (Cont'd)

(u) Accounting policies applicable prior to 1 January 2018 (Cont'd)

(iii) Financial instruments designated at fair value

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

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

Designated financial assets are recognised when the bank enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when the bank enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement in 'Net income/(expense) from financial instruments designated at fair value'. Under this criterion, the main classes of financial instruments designated by the Group and the Bank are:

Long-term debt issues

The interest/profit and/or foreign exchange exposure on certain fixed rate debt securities issued has been matched with the interest/profit and/or foreign exchange exposure on certain swaps as part of a documented risk management strategy.

5 Financial risk management

a) Introduction and overview

All of the Group's 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 have 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's and the Bank's (i) exposure to each of the above risks; (ii) objectives, policies and processes for measuring and managing risk; and (iii) management of capital.

Risk management framework

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

The Executive Committee and Board Risk Committee (comprised Non-Executive Directors appointed by the Board of Directors), formulate risk management policy, monitor risk and regularly review the effectiveness of the Group's 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. A separate internal Risk Management Meeting made up of EXCO members (in line with the HSBC Group's Enterprise Risk Management Framework) are responsible to oversee and ensure that risk issues across all businesses are appropriately managed, and that adequate controls exist. Additionally, the Group and the Bank also have an internal Operational Risk and Governance Working Group to oversee and manage operational risk and ensure that adequate controls are maintained over operational processes.

Day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making. All employees have a role to play in risk management. These roles are defined using the three lines of defence model, which takes into account the Group's and the Bank's business and functional structures.

Top and emerging risks management

The Group and the Bank use a top and emerging risks process to provide a forward looking view of issues that have the potential to threaten the execution of our strategy or operations over the medium to long term.

The Group and the Bank proactively assess the internal and external risk environment, as well as review the themes identified across our regions and global businesses, for any risks that may require global escalation, updating our top and emerging risks as necessary.

The Group and the Bank define a 'top risk' as a thematic issue that may form and crystallise between six months and one year, and has the potential to materially affect the Group's and the Bank's financial results, reputation or business model. It may arise across any combination of risk types, countries or global businesses. The impact may be well understood by senior management and some mitigating actions may already be in place. Stress tests of varying granularity may already have been carried out to assess the impact.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

a) Introduction and overview (Cont'd)

Top and emerging risks management (Cont'd)

An 'emerging risk' is defined as a thematic issue with large unknown components that may form and crystallise beyond a one year time horizon. If it were to materialise, it could have a significant material effect on a combination of the Group's and the Bank's long term strategy, profitability and reputation. Existing management action plans are likely to be minimal, reflecting the uncertain nature of these risks at this stage. Some high-level analysis and/or stress testing may have been carried out to assess the potential impact.

Our current key top and emerging risks are as follows:
- Adverse credit risk outlook
- Cyber threat and unauthorised access to systems
- Elevated regional political risk
- Financial crime risk environment
- Regulatory developments with adverse impact on business model and profitability
- Impact of organisational change

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, capital market transactions, guarantees, foreign exchange derivatives and holdings of investment debt securities. The Group and the Bank have dedicated standards, policies and procedures to control and monitor all such risks.

Credit risk generates the largest regulatory capital requirement of the risks we incur. The Group and the Bank have standards, policies and procedures dedicated to controlling and monitoring risk from all such activities. The Group's and the Bank's principal credit risk management procedures and policies, which follow policies established by HSBC Group Head Office, include the following:

- Formulating credit policies which are consistent with the Group and the Bank credit policy and documenting these in detail in dedicated manuals.
- Establishing and maintaining the Group's and the Bank's large credit exposure policy. This policy delineates the Group's and the Bank's maximum exposures to individual customers, customer groups and other risk concentrations.
- Establishing and complying with lending guidelines on the Group's and the Bank's attitude towards, and appetite for, lending to specified market sectors and industries.
- Undertaking an objective assessment of risk. All commercial non-bank credit facilities originated by the Group and the Bank in excess of designated limits are subject to review prior to the facilities being committed to customers.
- Controlling exposures to banks and other financial institutions. The Group's and the Bank's credit and settlement risk limits to counterparties in the finance and government sectors are designed to optimise the use of credit availability and avoid excessive risk concentration.
- Managing exposures to debt securities by establishing controls in respect of the liquidity of securities held for trading and setting issuer limits for financial investments. Separate portfolio limits are established for asset-backed securities and similar instruments.
- Managing cross-border risk where applicable.
- Controlling exposures to selected industries. When necessary, restrictions are imposed on new business, or exposures in the Group's and the Bank's operating entities are capped.
- Maintaining and developing risk ratings in order to categorise exposures meaningfully and facilitate focused management of the attendant risks. Rating methodology is based upon a wide range of financial analytics together with market data-based tools which are core inputs to the assessment of counterparty risk. Although automated risk-rating processes are increasingly used for the larger facilities, ultimate responsibility for setting risk grades rests in each case with the final approving executive. Risk grades are reviewed frequently and amendments, where necessary, are implemented promptly.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

The Group's and the Bank's members of the Risk Management Meeting (RMM) and HSBC Group Head Office receive regular reports on credit exposures. These include information on large credit exposures, concentrations, industry exposures, levels of impairment provisioning and country exposures.

The CRO and the respective members of the RMM, under the recommendation of the RMM, has the responsibility for risk approval authorities and approving definitive risk policies and controls. The RMM monitors risk inherent to the financial services business, receives reports, determines action to be taken and reviews the efficacy of the risk management framework.

The Executive Committee (EXCO) and RMM are supported by a dedicated function headed by the Chief Risk Officer, who is a member of both EXCO and RMM and reports to the CEO.

The Risk Committee also has responsibility for oversight and advice to the Board on risk matters. The key responsibilities of the Risk Committee in this regard include preparing advice to the Board on the overall risk appetite tolerance and strategy within the Group and the Bank, and seeking such assurance as it may deem appropriate that account has been taken of the current and prospective macroeconomic and financial environment. The Risk Committee is also responsible for the periodic review of the effectiveness of the internal control and risk management frameworks and advising the Board on all high level risk matters. The Risk Committee approves the appointment and removal of the Group and the Bank Chief Risk Officer.

A Credit and Risk Management structure under the Chief Risk Officer, who reports to the CEO, 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 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 Chief Risk Officer who in turn will delegate the credit approval authorities to the credit risk executives. 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 RMM, Risk Committee and the Board, covering:

- well defined credit risk appetite on business;
- risk concentrations and exposures by industry (main sectors exposures) and portfolio/business;
- single counterparty exposure limit;
- portfolio management exposures by Customer Risk Rating (asset quality by CRR);
- large impaired accounts and impairment allowances;
- early 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's and Bank's exposure to credit risk is shown in Note 5(b)(viii) and distribution of financial assets by credit quality in Note 5(b)(ix).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

(i) Credit Risk Profile

The Group and the Bank have adopted the requirements of MFRS 9 from 1 January 2018. Under MFRS 9, the scope of impairment now covers amortised cost of financial assets, loan/financing commitments and financial guarantees, as well as debt instruments measured at Fair Value through Other Comprehensive Income (FVOCI). Impairment is calculated in three stages and financial instruments are allocated into one of the three stages where the transfer mechanism depends on whether there is a significant increase in credit risk between its first recognition and the relevant reporting period. After the allocation, the measurement of expected credit loss (ECL), which is the product of probability of default (PD), loss given default (LGD) and exposure at default (EAD), will reflect the change in risk of default occurring over the remaining life of the instruments.

Below provides an overview of the Group's and the Bank's credit risk by stage. The financial assets recorded in each stage have the following characteristics:

Stage 1: Unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.
Stage 2: A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised.
Stage 3: Objective evidence of impairment, and are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognised.

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due (DPD) and are transferred from stage 1 to stage 2.

5 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

(i) Credit Risk Profile (Cont'd)

- **Credit impaired loans (Stage 3)**

  The Group and the Bank define a financial instrument as in default, which is fully aligned with the definition of credit- impaired, when it meets one or more of the following criteria:

  Quantitative criteria

  The borrower is more than 90 days past due on its contractual payments.

  Qualitative criteria

  The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

  - The borrower is in long-term forbearance
  - The borrower is deceased
  - The borrower is insolvent
  - The borrower is in breach of financial covenant(s)
  - An active market for that financial asset has disappeared because of financial difficulties
  - Concessions have been made by the lender relating to the borrower's financial difficulty
  - It is becoming probable that the borrower will enter bankruptcy
  - Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

- **Credit deterioration of financial instruments**

  Measurement uncertainty and sensitivity analysis of ECL estimates

  The recognition and measurement of expected credit loss (ECL) is highly complex and involves the use of significant judgment and estimation. This includes the formulation and incorporation of multiple forward-looking economic conditions into the ECL estimates to meet the measurement objective of MFRS 9.

  Methodology for developing forward looking economic scenarios

  The Group and the Bank have adopted the use of three economic scenarios, which are representative of our view of forecast economic conditions, sufficient to calculate unbiased ECL. They represent a 'most likely outcome', (the Central scenario) and two, less likely, 'Outer' scenarios on either side of the Central, referred to as an 'Upside' and a 'Downside' scenario respectively. Each outer scenario is consistent with a probability of 10%, while the Central scenario is assigned the remaining 80%. This weighting scheme is deemed as appropriate for the computation of unbiased ECL in most economic environments. Setting key scenario assumptions using the average of forecasts from external economists helps to ensure that the MFRS 9 scenarios are unbiased and maximise the use of independent information.

5 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

(i) Credit Risk Profile (Cont'd)

- **Credit deterioration of financial instruments (Cont'd)**

Methodology for developing forward looking economic scenarios (Cont'd)

For the Central scenario, key assumptions such as GDP growth, inflation, unemployment and policy rates are set using either the average of external forecasts (commonly referred to as consensus forecasts) for most economies or market prices. An external vendor's global macro model, which is conditioned to follow the consensus forecasts, projects the other paths required as inputs to credit models. This vendor model is subject to HSBC's risk governance framework with oversight by a specialist internal unit. The Upside and Downside scenarios are designed to be cyclical in that GDP growth, inflation and unemployment usually revert back to the Central scenario after the first three years for major economies. The Group and the Bank determine the maximum divergence of GDP growth from the Central scenario using the 10^{th} and the 90^{th} percentile of the entire distribution of forecast outcomes for major economies. Using externally available forecast distributions ensures independence in scenario construction. While key economic variables are set with reference to external distributional forecasts, the Group and the Bank also align the overall narrative of the scenarios to the macroeconomic risks described in HSBC's Top and Emerging Risks. This ensures that scenarios remain consistent with the more qualitative assessment of risks captured in the Top and Emerging Risks. The Group and the Bank project additional variable paths using the external vendor's global macro model.

The Central, Upside and Downside scenarios selected with reference to external forecast distributions using the above approach are termed the 'Consensus Economic Scenarios'. The Group and the Bank apply the following to generate the three economic scenarios:

- **Economic Risk Assessment**

  The Group and the Bank develop a shortlist of the downside and upside economic and political risks most relevant to HSBC and the MFRS 9 measurement objective. These risks include local and global economic/political risks that together impact on economies that materially matter to HSBC. The Group and the Bank compile this list by monitoring developments in the global economy, assessing the risk identified in the Group's and the Bank's Top and Emerging Risks, and through external and internal consultations with subject matter experts.

- **Scenario Generation**

  For the Central scenario, the Group and the Bank obtain a pre-defined set of economic forecasts from the average forecast taken from the Consensus Forecast survey of professional forecasters. Paths for the outer scenarios are benchmarked to the Central scenario and reflect the economic risk assessment. The Group and the Bank assign each path probabilities to reflect the likelihood of occurrence of that scenario. Scenario probabilities reflect management judgment and are informed by data analysis of past recessions (transitions in and out of recession) and the current economic outlook. The scenario probability represents a "best estimate" of the likelihood of occurrence of a scenario, given its key assumptions and scenario paths. Suitable narratives are developed for the Central scenario and the paths of the Outer scenarios.

- **Variable Enrichment**

  The Group and the Bank expand each scenario through enrichment of variables by using as inputs the agreed scenario narratives and the variables aligned to these narratives. Scenarios, once expanded, continue to be benchmarked to the latest events and information. Late breaking events could lead to revision of scenarios to reflect management judgment or a management adjustment.

  The Group and the Bank recognise that the Consensus Economic Scenario approach using three scenarios will be insufficient in certain economic environments. Additional analysis may be requested at management's discretion, including the production of extra scenarios. We anticipate there will be only limited instances when the standard approach will not apply.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

(i) Credit Risk Profile (Cont'd)

- **Consensus Scenarios (average 2018 – 2022)**

	Scenario		
	Central (%)	Upside (%)	Downside (%)
GDP growth rate	4.8	5.2	4.4
Inflation	2.4	2.7	2.1
Unemployment	3.2	3.0	3.4
Short term interest/profit rate	3.9	4.1	2.7
Property price growth	5.8	6.3	4.6
Probability	80.0	10.0	10.0

- **How economic scenarios are reflected in the Wholesale calculation of ECL**

HSBC has developed a globally consistent methodology for the application of Forward Economic Guidance (FEG) into the calculation of ECL by incorporating FEG into the estimation of the term structure of Probability of Default (PD) and Loss Given Default (LGD). For PDs, the Group and the Bank consider the correlation of FEG to default rates for a particular industry. For LGD calculations, we consider the correlation of FEG to collateral values and realisation rates for Malaysia and industry. PDs and LGDs are estimated for the entire term structure of each instrument.

For impaired loans, LGD estimates take into account independent recovery valuations provided by external consultants where available, or internal forecasts corresponding to anticipated economic conditions and individual company conditions. In estimating the ECL on impaired loans that are individually considered not to be significant, the Group and the Bank incorporate FEG proportionate to the probability-weighted outcome and the Central scenario outcome for non-stage 3 populations.

- **How economic scenarios are reflected in the Retail calculation of ECL**

HSBC has developed and implemented a globally consistent methodology for incorporating forecasts of future economic conditions into ECL estimates. The impact of FEG on PD is modelled at a portfolio level. Historic relationships between observed default rates and macro-economic variables are integrated into MFRS 9 ECL estimates by leveraging economic response models. The impact of FEG on PD is modelled over a period equal to the remaining maturity of underlying asset(s). The impact on LGD is modelled for mortgage portfolios by forecasting future loan-to-value (LTV) profiles for the remaining maturity of the asset by leveraging national level forecasts of the property price index (PPI) and applying the corresponding LGD expectation.

- **Impact of multiple economic scenarios on ECL**

The ECL recognised in the financial statements (the MFRS 9 ECL) reflects the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on the economic scenarios described above, including management adjustments where required. The probability weighted amount is typically a higher number than would result from using only the Central (most likely) Economic Scenario. Expected losses typically have a non-linear relationship to the many factors which influence credit losses such that more favourable macro-economic factors do not reduce defaults as much as less favourable macro-economic factors increase defaults. Currently, the effect of non-linearity is not significant to ECL.

b) Credit risk management (Cont'd)

(i) Credit Risk Profile (Cont'd)

- **Economic scenarios sensitivity analysis of ECL estimates**

The ECL outcome is sensitive to judgment and estimations made with regards to the formulation and incorporation of multiple forward looking economic conditions described above. As a result, management assessed and considered the sensitivity of the ECL outcome against the forward looking economic conditions as part of the ECL governance process by recalculating the ECL for selected portfolios where 100% weighting is assigned to each of the three scenarios described above. The weighting is reflected in both the determination of significant increase in credit risk as well as the measurement of the resulting ECL. This analysis excludes any management adjustment.

The three economic scenarios are generated to capture HSBC's view of a range of possible forecast economic conditions that is sufficient for the calculation of unbiased and probability-weighted ECL. Therefore, the ECLs calculated for each of the scenarios represent a range of possible outcomes that is being evaluated while arriving at the ECL. As a result, the ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible actual ECL outcomes. The ECL sensitivity below represents an estimate based on the underlying point-in-time distribution of economic scenarios which have the potential to change rapidly as economic conditions evolve in the various geographies in which we operate. The recalculated ECLs for each of the scenarios should be read in the context of the sensitivity analysis as a whole and in conjunction with the narrative disclosures provided below.

- **Wholesale analysis**

The portfolios below were selected based on contribution to ECL and sensitivity to macro economic factors.

MFRS 9 ECL sensitivity to future economic conditions [1]

ECL coverage of financial instruments subject to significant measurement uncertainty at 31 December 2018 [2]	**Group**	**Bank**
Reported ECL (RM'000)	33,417	23,846
Gross carrying/nominal amount [3] (RM'000)	60,564,673	46,352,485
Reported ECL coverage (%)	0.06 %	0.05 %
Coverage ratios by scenario (%)		
Consensus central scenario	0.06 %	0.05 %
Consensus upside scenario	0.05 %	0.05 %
Consensus downside scenario	0.06 %	0.06 %

[1]Excludes ECL and financial instruments relating to defaulted obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor then future economic scenario.
[2]Includes off balance sheet financial instruments that are subject to significant measurement uncertainty.
[3]Includes low credit risk financial instruments such as Debt instruments at FVOCI which have low ECL coverage ratios under all the above scenarios. Coverage ratios on loans, advances and financing to customers including loan commitments and financial guarantees are typically higher.

Changes to economic forecasts, underlying credit quality and relationships between macro economic factors and credit risk will have a corresponding impact on ECL.

5 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

(i) Credit Risk Profile (Cont'd)

- **Retail analysis**

MFRS 9 ECL sensitivity to future economic conditions [1]

ECL coverage of financing and advances at 31 December 2018 [2]	Group	Bank
Reported ECL (RM'000)	380,369	195,719
Gross carrying amount (RM'000)	24,109,059	17,763,343
Reported ECL coverage (%)	1.58 %	1.10 %
Coverage ratios by scenario (%)		
Consensus central scenario	1.56 %	1.09 %
Consensus upside scenario	1.39 %	0.96 %
Consensus downside scenario	1.75 %	1.23 %

[1]ECL sensitivities excludes portfolios utilising less complex modelling approaches.
[2]ECL sensitivity includes only on balance sheet financial instruments to which MFRS 9 impairment requirements are applied .

The retail ECL sensitivity on a relative basis represents the differences in economic distribution and historical correlations to economic variables. The retail ECL sensitivity on absolute basis is largely a reflection of differences in level of credit quality across the Group and the Bank. As economic forecasts, historical economic variable correlations or credit quality changes this will have a corresponding change in the ECL sensitivity above.

(ii) Collateral held as security

Although collateral can be an important mitigant of credit risk, it is the Group's and the Bank's general practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources rather than rely on the value of security offered. Depending on the customer's standing and the type of product, facilities may be provided unsecured. For other lending, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of default, the bank may use the collateral as a source of repayment.

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 financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for impaired loans, advances and financing for the Group and the Bank as at 31 December 2018 are 60.0% (2017: 68.3%) and 67.5% (2017: 75.5%) respectively. The financial effect of collateral held for other remaining on-balance sheet financial assets is not significant.

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.

(iii) 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 Notes 13(v) and 13(vii). The analysis of concentration of credit risk from the Group's and the Bank's financial assets is shown in Note 5(b)(ix).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

(iv) Financial assets FVTPL (comparatives – held-for-trading)

As at 31 December 2017, the Group and Bank held financial assets FVTPL (comparative – held-for-trading) of RM2,327 million (2017: RM1,989 million) and RM2,327 million (2017: RM1,989 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 10 to the financial statements.

(v) 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 OTC 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. Whilst not common practice in the Malaysian market, it is the HSBC 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 counterparty risk inherent in outstanding positions.

(vi) Stress testing

HSBC operates a comprehensive stress testing programme that supports our risk management and capital planning. It includes execution of stress tests mandated by our regulators, as well as internal stress tests and reverse stress tests. Our stress testing is carried out within a robust governance framework, overseen at the most senior level of the Group and the Bank.

Our stress testing programme assesses our capital strength through a rigorous examination of our resilience to external shocks. It also helps us understand and mitigate risks and informs our decisions about capital levels.

Internal stress tests are an important element in our risk management and capital management frameworks. Our capital plan is assessed through a range of stress scenarios which explore risks identified by management. They include potential adverse macroeconomic, geopolitical and operational risk events, and other potential events that are specific to the Group and the Bank. The selection of scenarios reflects our top and emerging risks identification process and our risk appetite. Stress testing analysis helps management understand the nature and extent of vulnerabilities to which the bank is exposed. Using this information, management decides whether risks can or should be mitigated through management actions or, if they were to crystallise, should be absorbed through capital. This in turn informs decisions about preferred capital levels.

Reverse stress tests are conducted annually at the Group and the Bank and, where required, subsidiary entity level in order to understand which potential extreme conditions would make our business model nonviable. Reverse stress testing identifies potential stresses and vulnerabilities which the Group and the Bank might face, and helps inform early warning triggers, management actions and contingency plans designed to mitigate risks.

(vii) 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 reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and liability simultaneously (the offset criteria). During the financial 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:

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(vii) Offsetting financial assets and liabilities (Cont'd)

	(i)	(ii)	(iii) = (i) + (ii)	(iv)a	(iv)b	(v) = (iii) - (iv)
				Gross amounts not offset in the statement of financial position		
Description	**Gross amounts of recognised assets RM'000**	**Gross amounts offset in the statement of financial position RM'000**	**Net amount of assets presented in the statement of financial position RM'000**	**Financial instruments RM'000**	**Cash collateral received RM'000**	**Net amount RM'000**
2018						
Group						
Securities purchased under resale agreements	**2,557,198**	**-**	**2,557,198**	**2,557,198**	**-**	**-**
Derivative financial assets	**1,299,939**	**-**	**1,299,939**	**-**	**(314,271)**	**1,614,210**
Derivative financial liabilities	**1,116,285**	**-**	**1,116,285**	**-**	**255,078**	**861,207**
Bank						
Securities purchased under resale agreements	**2,557,198**	**-**	**2,557,198**	**2,557,198**	**-**	**-**
Derivative financial assets	**1,303,262**	**-**	**1,303,262**	**-**	**289,271**	**1,013,991**
Derivative financial liabilities	**1,134,562**	**-**	**1,134,562**	**-**	**255,078**	**879,484**
2017						
Group						
Securities purchased under resale agreements	1,964,930	-	1,964,930	1,964,930	-	-
Derivative financial assets	2,045,225	-	2,045,225	-	91,720	1,953,505
Derivative financial liabilities	2,096,405	-	2,096,405	-	682,257	1,414,148
Bank						
Securities purchased under resale agreements	1,964,930	-	1,964,930	1,964,930	-	-
Derivative financial assets	2,045,005	-	2,045,005	-	116,720	1,928,285
Derivative financial liabilities	2,109,255	-	2,109,255	-	682,257	1,426,998

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(viii) Exposure to credit risk

The Group and the Bank assess the credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a point in time assessment of the probability of default of financial instruments, whereas MFRS 9 stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition. Accordingly, for non-credit impaired financial instruments, there is no direct relationship between the credit quality assessment and MFRS 9 stages 1 and 2, though typically the lower credit quality bands exhibit a higher proportion in stage 2.

The five credit quality classifications defined above each encompass a range of granular internal credit rating grades assigned to wholesale and retail lending businesses and the external ratings attributed by external agencies to debt securities, as shown below. Under IAS 39, retail lending credit quality was disclosed based on expected-loss percentages. Under MFRS 9 retail lending credit quality is now disclosed based on a 12-month probability-weighted PD. The credit quality classifications for wholesale lending are unchanged and are based on internal credit risk ratings.

Credit quality of the debt securities and other bills	External Credit Rating[1]
Strong	A- and above
Good	BBB+ to BBB-
Satisfactory	BB+ to B and unrated
Sub-standard	B- to C
Impaired	D

Credit quality of the corporate lending/derivative financial assets/ securities purchased under resale agreements/ deposits and placements with banks and other financial institutions

	Internal Credit Rating	12-month Basel probability of default %
Strong	CRR1 - CRR2	0.000–0.169
Good	CRR3	0.170–0.740
Satisfactory	CRR4 - CRR5	0.741–4.914
Sub-standard	CRR6 - CRR8	4.915–99.999
Impaired	CRR9 - CRR10	100

Credit quality of the retail lending

	Internal Credit Rating	12-month Basel probability of default %
Strong	Band 1 and 2	0.000–0.500
Medium-good	Band 3	0.501–1.500
Medium-satisfactory	Band 4 and 5	1.501–20.000
Sub-standard	Band 6	20.001-99.999
Impaired	Band 7	100

[1] 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.

Quality classification definitions

‘Strong’ exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default.

‘Good’ exposures demonstrate a good capacity to meet financial commitments, with low default risk.

‘Satisfactory’ exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.

‘Sub-standard’ exposures require varying degrees of special attention and default risk is of greater concern.

‘Credit-impaired’ exposures have been assessed as impaired.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(ix) Distribution of financial assets by credit quality

Group (RM'000)	Gross Carrying Amount Strong	Good	Satisfactory	Sub-standard	Credit Impaired	Total	ECL allowances	Carrying amount (net of impairment provision)
Cash and short-term funds	**7,908,191**	**-**	**-**	**-**	**-**	**7,908,191**	**(32)**	**7,908,159**
Securities purchased under resale agreements	**2,557,198**	**-**	**-**	**-**	**-**	**2,557,198**	**-**	**2,557,198**
Deposits and placements with banks and other financial institution	**227,535**	**-**	**-**	**-**	**-**	**227,535**	**-**	**227,535**
Financial assets at FVTPL	**2,286,815**	**-**	**40,570**	**-**	**-**	**2,327,385**	**-**	**2,327,385**
Financial assets af FVOCI [1]	**13,532,382**	**-**	**471**	**-**	**-**	**13,532,853**	**-**	**13,532,853**
Loans, advances and financing to customers held at amortised cost	**17,636,679**	**17,999,441**	**15,728,247**	**1,528,268**	**1,039,605**	**53,932,240**	**(623,747)**	**53,308,493**
of which:								
- retail	***8,201,662***	***8,368,121***	***7,311,987***	***710,413***	***483,190***	***25,075,373***	***(521,748)***	***24,553,625***
- corporate and commercial	***9,435,017***	***9,631,320***	***8,416,260***	***817,855***	***556,415***	***28,856,867***	***(101,999)***	***28,754,868***
Derivatives financial assets	**881,134**	**218,141**	**200,475**	**189**	**-**	**1,299,939**	**-**	**1,299,939**
Other financial assets	**505,754**	**-**	**-**	**-**	**-**	**505,754**	**-**	**505,754**
Financial guarantees contracts	**522,814**	**724,895**	**644,224**	**74,662**	**1,991**	**1,968,586**	***(2,769)***	**1,965,817**

Bank (RM'000)	Gross Carrying Amount Strong	Good	Satisfactory	Sub-standard	Credit Impaired	Total	ECL allowances	Carrying amount (net of impairment provision)
Cash and short-term funds	**5,137,270**	**-**	**-**	**-**	**-**	**5,137,270**	**(30)**	**5,137,240**
Securities purchased under resale agreements	**2,557,198**	**-**	**-**	**-**	**-**	**2,557,198**	**-**	**2,557,198**
Deposits and placements with banks and other financial institution	**1,369,248**	**-**	**-**	**-**	**-**	**1,369,248**	**-**	**1,369,248**
Financial assets at FVTPL	**2,286,815**	**-**	**40,570**	**-**	**-**	**2,327,385**	**-**	**2,327,385**
Financial assets af FVOCI [1]	**10,806,699**	**-**	**471**	**-**	**-**	**10,807,170**	**-**	**10,807,170**
Loans, advances and financing to customers held at amortised cost	**14,082,515**	**12,762,690**	**10,984,270**	**1,015,714**	**641,180**	**39,486,369**	**(315,213)**	**39,171,156**
of which:								
- retail	***6,552,800***	***5,938,666***	***5,111,142***	***472,627***	***298,350***	***18,373,585***	***(259,405)***	***18,114,180***
- corporate and commercial	***7,529,715***	***6,824,024***	***5,873,128***	***543,087***	***342,830***	***21,112,784***	***(55,808)***	***21,056,976***
Derivatives financial assets	**1,044,834**	**218,132**	**40,150**	**146**	**-**	**1,303,262**	**-**	**1,303,262**
Other financial assets	**546,982**	**-**	**-**	**-**	**-**	**546,982**	**-**	**546,982**
Financial guarantees contracts	**348,394**	**665,360**	**463,082**	**23,562**	**40**	**1,500,438**	***(1,524)***	**1,498,914**

[1] Financial investments at FVOCI excludes equity securities.

5 Financial risk management (Cont'd)

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 is the risk that funding considered to be sustainable, and therefore used to fund assets, is not sustainable over time. 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's 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 Group'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's 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 through HSBC Group's liquidity and funding risk framework (LFRF) and BNM's Liquidity Coverage Ratio Framework. Limits are proposed by Asset, Liability and Capital Management (ALCM) through the RMM and approved by the Board. These limits vary to take account of the depth and liquidity of the local market in which the Group and the Bank operates. 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 Asset and Liability Committee (ALCO) is responsible for managing all ALCM issues including liquidity and funding risk management. Compliance with liquidity and funding requirements is monitored by ALCO through the following processes: maintaining compliance with relevant regulatory requirements of the operating entity;
- projecting cash flows under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- monitoring liquidity and funding ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of term funding;
- managing contingent liquidity commitment exposures within predetermined limits;
- maintaining debt financing plans;
- monitoring of depositor concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises, while minimising adverse long-term implications for the business.

The HSBC Group's LFRF uses the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) regulatory framework as a foundation, but adds extra metrics, limits and overlays to address the risks that we consider are not adequately reflected by the regulatory framework.

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

The LFRF is delivered using the following key aspects:

- standalone management of liquidity and funding by operating entity;
- operating entity classification by inherent liquidity risk (ILR) categorisation;
- legal entity minimum LCR requirement;
- legal entity minimum NSFR requirement;
- legal entity depositor concentration limit;
- three-month and 12-month cumulative rolling term contractual maturity limits covering deposits from banks, deposits from non-bank financial institutions and securities issued;
- annual individual liquidity adequacy assessment (ILAA) by principal operating entity;
- minimum LCR requirement by currency;
- intraday liquidity; and
- forward-looking funding assessments.

The two key objectives of the ILAA process are to:

- demonstrate that all material liquidity and funding risks are captured within the internal framework; and
- forms the basis of the operating entity's risk tolerance/appetite setting and assessment of vulnerabilities through the use of severe stress scenarios.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

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

i) 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 behavioural profile.

Group 31 December 2018	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	7,908,159	-	-	-	-	-	-	7,908,159
Securities purchased under resale agreements	1,532,477	345,434	679,287	-	-	-	-	2,557,198
Deposits and placements with banks and other financial institutions	-	227,535	-	-	-	-	-	227,535
Financial assets at FVTPL	-	-	-	-	-	-	2,327,385	2,327,385
Financial investments at FVOCI	1,332,680	2,732,401	1,719,485	7,195,625	552,662	187,464	-	13,720,317
Loans, advances and financing	15,023,204	7,329,531	3,655,595	5,445,162	21,855,001	-	-	53,308,493
Derivative financial assets	-	-	-	329	-	-	1,299,610	1,299,939
Others	16,812	8,566	16,134	77,966	9,981	2,144,812	298,252	2,572,523
Total Assets	25,813,332	10,643,467	6,070,501	12,719,082	22,417,644	2,332,276	3,925,247	83,921,549
LIABILITIES AND EQUITY								
Deposits from customers	42,280,955	5,878,925	8,386,793	600,191	289	-	-	57,147,153
Deposits and placements from banks and other financial institutions	3,261,079	154,107	383,972	1,695,153	-	24,440	-	5,518,751
Repurchase agreement	147,871	-	-	-	-	-	-	147,871
Bills payable	250,704	-	-	-	-	-	-	250,704
Multi-Currency Sukuk Programme	-	-	501,173	1,254,108	-	-	-	1,755,281
Subordinated liabilities	-	-	-	500,000	595,987	-	-	1,095,987
Derivative financial liabilities	-	-	158	9,528	-	-	1,106,599	1,116,285
Structured liabilities designated at FVTPL	73,538	93,299	841,123	3,142,764	7,517	-	-	4,158,241
Others	113,022	63,374	107,958	53,345	10,853	1,923,653	281,598	2,553,803
Total Liabilities	46,127,169	6,189,705	10,221,177	7,255,089	614,646	1,948,093	1,388,197	73,744,076
Equity	-	-	-	-	-	10,177,473	-	10,177,473
Total Liabilities and Equity	46,127,169	6,189,705	10,221,177	7,255,089	614,646	12,125,566	1,388,197	83,921,549
Net maturity mismatches	(20,313,837)	4,453,762	(4,150,676)	5,463,993	21,802,998	(9,793,290)	2,537,050	-
Off-balance sheet liabilities	68,699,461	31,771,969	43,279,576	41,706,313	3,091,676	-	-	188,548,995

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

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

i) Liquidity risk (Cont'd)

Group 31 December 2017	**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	10,313,776	-	-	-	-	-	-	10,313,776
Securities purchased under resale agreements	1,048,527	916,403	-	-	-	-	-	1,964,930
Deposits and placements with banks and other financial institutions	-	709,999	-	-	-	-	-	709,999
Financial assets held-for-trading	-	-	-	-	-	-	1,988,719	1,988,719
Financial investments available-for-sale	128,345	1,342,578	598,155	7,533,920	-	177,407	-	9,780,405
Loans, advances and financing	13,478,237	6,630,128	4,025,907	5,392,700	22,452,682	-	-	51,979,654
Derivative financial assets	790	431	-	2,288	-	-	2,041,716	2,045,225
Others	24,510	15,137	9,083	83,723	3,114	1,784,096	46,136	1,965,799
Total Assets	24,994,185	9,614,676	4,633,145	13,012,631	22,455,796	1,961,503	4,076,571	80,748,507
LIABILITIES AND EQUITY								
Deposits from customers	42,958,109	5,456,211	7,810,470	326,361	-	-	-	56,551,151
Deposits and placements from banks and other financial institutions	2,662,384	1,013,066	223,417	1,431,967	-	22,775	-	5,353,609
Bills payable	318,009	-	-	-	-	-	-	318,009
Multi-Currency Sukuk Programme	-	-	-	1,252,829	-	-	-	1,252,829
Subordinated liabilities	143	162	-	500,000	583,598	-	-	1,083,903
Derivative financial liabilities	207	26	217	8,733	-	-	2,087,222	2,096,405
Others	89,191	62,812	95,524	39,871	22,365	1,501,048	2,945,630	4,756,441
Total Liabilities	46,028,043	6,532,277	8,129,628	3,559,761	605,963	1,523,823	5,032,852	71,412,347
Equity	-	-	-	-	-	9,336,160	-	9,336,160
Total Liabilities and Equity	46,028,043	6,532,277	8,129,628	3,559,761	605,963	10,859,983	5,032,852	80,748,507
Net maturity mismatches	(21,033,858)	3,082,399	(3,496,483)	9,452,870	21,849,833	(8,898,480)	(956,281)	-
Off-balance sheet liabilities	68,351,879	28,323,781	39,608,681	41,999,075	4,307,728	-	-	182,591,144

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

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

i) Liquidity risk (Cont'd)

Bank 31 December 2018	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	5,137,240	-	-	-	-	-	-	5,137,240
Securities purchased under resale agreements	1,532,477	345,434	679,287	-	-	-	-	2,557,198
Deposits and placements with banks and other financial institutions	-	349,247	424,015	-	595,986	-	-	1,369,248
Financial assets at FVTPL	-	-	-	-	-	-	2,327,385	2,327,385
Financial investments at FVOCI	1,332,680	2,533,087	978,354	5,410,387	552,662	187,464	-	10,994,634
Loans, advances and financing	12,009,241	5,827,339	2,368,120	3,023,936	15,942,520	-	-	39,171,156
Derivative financial assets	-	-	-	329	-	-	1,302,933	1,303,262
Others	89,922	8,657	10,050	63,124	10,288	2,390,450	294,821	2,867,312
Total Assets	20,101,560	9,063,764	4,459,826	8,497,776	17,101,456	2,577,914	3,925,139	65,727,435
LIABILITIES AND EQUITY								
Deposits from customers	35,837,501	3,627,538	5,977,006	260,293	259	-	-	45,702,597
Deposits and placements from banks and other financial institutions	2,330,855	624	177,122	289,487	-	-	-	2,798,088
Repurchase agreement	147,871	-	-	-	-	-	-	147,871
Bills payable	232,110	-	-	-	-	-	-	232,110
Subordinated liabilities	-	-	-	500,000	595,987	-	-	1,095,987
Derivative financial liabilities	-	-	158	9,528	-	-	1,124,876	1,134,562
Structured liabilities designated at FVTPL	73,538	93,299	711,185	2,395,342	-	-	-	3,273,364
Others	88,630	43,578	80,962	30,579	10,853	1,791,448	281,598	2,327,648
Total Liabilities	38,710,505	3,765,039	6,946,433	3,485,229	607,099	1,791,448	1,406,474	56,712,227
Equity	-	-	-	-	-	9,015,208	-	9,015,208
Total Liabilities and Equity	38,710,505	3,765,039	6,946,433	3,485,229	607,099	10,806,656	1,406,474	65,727,435
Net maturity mismatches	(18,608,945)	5,298,725	(2,486,607)	5,012,547	16,494,357	(8,228,742)	2,518,665	-
Off-balance sheet liabilities	64,834,441	31,357,398	41,654,387	42,998,654	3,073,166	-	-	183,918,046

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

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

i) Liquidity risk (Cont'd)

Bank 31 December 2017	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	8,879,053	-	-	-	-	-	-	8,879,053
Securities purchased under resale agreements	1,048,527	916,403	-	-	-	-	-	1,964,930
Deposits and placements with banks and other financial institutions	-	1,903,433	1,184,845	31,622	583,598	-	-	3,703,498
Financial assets held-for-trading	-	-	-	-	-	-	1,988,719	1,988,719
Financial investments available-for-sale	128,345	1,168,559	85,166	5,999,884	-	177,407	-	7,559,361
Loans, advances and financing	10,654,962	4,310,345	3,390,593	3,557,387	16,682,564	-	-	38,595,851
Derivative financial assets	790	431	-	2,288	-	-	2,041,496	2,045,005
Others	193,859	19,509	10,875	71,911	5,484	2,035,801	46,136	2,383,575
Total Assets	20,905,536	8,318,680	4,671,479	9,663,092	17,271,646	2,213,208	4,076,351	67,119,992
LIABILITIES AND EQUITY								
Deposits from customers	36,724,284	3,728,892	5,877,576	185,895	-	-	-	46,516,647
Deposits and placements from banks and other financial institutions	2,658,575	1,013,066	223,417	537,709	-	-	-	4,432,767
Bills payable	301,331	-	-	-	-	-	-	301,331
Subordinated liabilities	143	162	-	500,000	583,598	-	-	1,083,903
Derivative financial liabilities	207	-	87	8,398	-	-	2,100,563	2,109,255
Others	62,406	48,330	79,726	23,186	22,365	1,397,534	2,662,710	4,296,257
Total Liabilities	39,746,946	4,790,450	6,180,806	1,255,188	605,963	1,397,534	4,763,273	58,740,160
Equity	-	-	-	-	-	8,379,832	-	8,379,832
Total Liabilities and Equity	39,746,946	4,790,450	6,180,806	1,255,188	605,963	9,777,366	4,763,273	67,119,992
Net maturity mismatches	(18,841,410)	3,528,230	(1,509,327)	8,407,904	16,665,683	(7,564,158)	(686,922)	-
Off-balance sheet liabilities	60,676,088	27,845,741	37,908,065	42,939,736	4,304,194	-	-	173,673,824

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

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.

ii) 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	Total
At 31 December 2018						
Non-derivative liabilities						
Deposits from customers	**33,120,762**	**15,375,079**	**8,488,358**	**684,036**	**-**	**57,668,235**
Deposits and placements of banks and other financial institutions	**-**	**3,454,861**	**396,431**	**1,837,312**	**-**	**5,688,604**
Structured liabilities designated as fair value through profit or loss	**274,799**	**122,686**	**823,182**	**3,227,619**	**-**	**4,448,286**
Bills payable	**250,704**	**-**	**-**	**-**	**-**	**250,704**
Other liabilities	**377,644**	**130,858**	**89,125**	**17,384**	**1,009,805**	**1,624,817**
Multi Currency Sukuk Programme	**-**	**10,513**	**553,287**	**1,346,630**	**-**	**1,910,430**
Subordinated liabilities	**-**	**7,153**	**47,111**	**688,985**	**626,400**	**1,369,649**
Loans and other credit-related commitments	**36,408,685**	**876,818**	**7,187,152**	**468,769**	**-**	**44,941,424**
Financial guarantees and similar contracts	**1,931,968**	**1,233,443**	**3,137,518**	**5,098,326**	**665,102**	**12,066,357**
	72,364,562	**21,211,411**	**20,722,165**	**13,369,061**	**2,301,307**	**129,968,506**
Derivative liabilities						
Gross settled derivatives						
- Inflow	**-**	**(30,083,379)**	**(14,084,417)**	**(3,450,360)**	**(599,391)**	**(48,217,547)**
- Outflow	**-**	**30,516,089**	**14,350,968**	**3,664,663**	**695,851**	**49,227,571**
Net settled derivatives	**-**	**20,941**	**27,712**	**77,530**	**6,885**	**133,068**

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	Total
At 31 December 2017						
Non-derivative liabilities						
Deposits from customers	33,192,500	15,351,931	7,946,983	365,748	-	56,857,162
Deposits and placements of banks and other financial institutions	-	3,715,271	245,488	1,539,636	-	5,500,395
Bills payable	318,009	-	-	-	-	318,009
Other liabilities	346,101	161,686	389,971	2,198,908	1,369,961	4,466,627
Multi Currency Sukuk Programme	-	10,463	31,737	1,302,721	-	1,344,921
Subordinated liabilities	-	7,246	41,032	684,798	623,495	1,356,571
Loans and other credit-related commitments	37,147,167	812,014	6,128,723	68,618	-	44,156,522
Financial guarantees and similar contracts	849,339	1,182,801	3,612,267	5,569,760	1,167,163	12,381,330
	71,853,116	21,241,412	18,396,201	11,730,189	3,160,619	126,381,537
Derivative liabilities						
Gross settled derivatives						
- Inflow	-	(25,544,133)	(10,646,654)	(2,907,920)	(634,158)	(39,732,865)
- Outflow	-	26,482,518	11,392,150	3,123,191	737,370	41,735,229
Net settled derivatives	-	17,815	29,615	83,461	11,072	141,963

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 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	Total
At 31 December 2018						
Non-derivative liabilities						
Deposits from customers	**29,465,294**	**10,223,125**	**6,097,510**	**297,030**	**-**	**46,082,959**
Deposits and placements of banks and other financial institutions	**-**	**2,339,639**	**178,982**	**305,698**	**-**	**2,824,319**
Structured liabilities designated as fair value through profit or loss	**274,799**	**122,686**	**704,721**	**2,387,908**	**-**	**3,490,114**
Bills payable	**232,110**	**-**	**-**	**-**	**-**	**232,110**
Other liabilities	**345,031**	**89,940**	**68,641**	**14,034**	**924,871**	**1,442,517**
Subordinated liabilities	**-**	**7,153**	**47,111**	**688,985**	**626,400**	**1,369,649**
Loans and other credit-related commitments	**29,662,336**	**695,577**	**5,654,667**	**403,323**	**-**	**36,415,903**
Financial guarantees and similar contracts	**1,855,529**	**1,018,234**	**2,429,778**	**4,422,719**	**646,592**	**10,372,852**
	61,835,099	**14,496,354**	**15,181,410**	**8,519,697**	**2,197,863**	**102,230,423**
Derivative liabilities						
Gross settled derivatives						
- Inflow	**-**	**(30,810,485)**	**(14,082,598)**	**(3,450,359)**	**(599,391)**	**(48,942,833)**
- Outflow	**-**	**31,243,352**	**14,351,163**	**3,678,642**	**695,851**	**49,969,008**
Net settled derivatives	**-**	**21,602**	**29,446**	**78,042**	**6,899**	**135,989**

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	Total
At 31 December 2017						
Non-derivative liabilities						
Deposits from customers	29,353,241	11,177,901	5,994,563	208,946	-	46,734,651
Deposits and placements of banks and other financial institutions	-	3,681,554	225,227	560,938	-	4,467,719
Bills payable	301,331	-	-	-	-	301,331
Other liabilities	305,460	137,244	383,184	2,197,480	977,438	4,000,806
Subordinated liabilities	-	7,246	41,032	684,798	623,495	1,356,571
Loans and other credit-related commitments	29,454,927	544,992	4,963,973	65,144	-	35,029,036
Financial guarantees and similar contracts	751,133	954,161	3,046,477	4,925,128	1,163,629	10,840,528
	60,166,092	16,503,098	14,654,456	8,642,434	2,764,562	102,730,642
Derivative liabilities						
Gross settled derivatives						
- Inflow	-	(25,609,403)	(10,617,045)	(2,907,919)	(634,158)	(39,768,525)
- Outflow	-	26,548,593	11,362,206	3,128,580	737,370	41,776,749
Net settled derivatives	-	18,989	31,096	84,639	11,195	145,919

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

d) Market risk management

Market risk is the risk that movements in market risk factors, including foreign exchange rates and commodity prices, interest/profit rates, credit spreads and equity prices, will reduce the Group's and the Bank's income or the value of their portfolios.

The objective of the Group's 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 one of the world's largest banking and financial services organisation.

There were no significant changes to the Group's and the Bank's policies and practices for the management of market risk in 2018.

The Group and the Bank separate exposures to market risk into either trading or non-trading portfolios. Trading portfolios comprise positions arising from market-making and warehousing of customer-derived positions. Non-trading portfolios primarily arise from the interest/profit rate management of the Group's and the Bank's retail and commercial banking assets and liabilities, and financial investments designated as available-for-sale and held to maturity.

The nature of the hedging and risk mitigation strategies performed across the Group and the Bank correspond to the market risk management instruments available within each operating jurisdiction. 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.

The management of market risk is principally undertaken using risk limit mandates approved by HSBC's Regional and Global Wholesale Credit and Market Risk Management (WCMR), 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 the Global Markets. 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 and business need 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 WCMR. Positions are monitored daily and excesses against the prescribed limits are reported immediately to local Senior Management and WCMR.

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, value at risk (VAR) and stress testing. 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) Sensitivity Analysis

Sensitivity analysis measures the impact of individual market factor movements on specific instruments or portfolios including interest rates, foreign exchange rates and equity prices, for example, the impact of a one basis point change in yield. We use sensitivity measures to monitor the market risk positions within each risk type.

Sensitivity limits are set for portfolios, products and risk types, with the depth of the market being one of the principal factors in determining the level of limits set.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

(ii) Value at risk (VAR)

VAR is a technique that estimates the potential losses 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 use of VAR is integrated into market risk management and is calculated for all trading positions regardless of how the Group and the Bank capitalise those exposures. Where there is no approved internal model, the Group and the Bank use the appropriate local rules to capitalise exposures.

In addition, the Group and the Bank calculate VAR for non-trading portfolios in order to have a complete picture of market risk. Where VAR is not calculated explicitly, alternative tools are used as summarised in the Market Risk stress testing section below.

The VAR models used by the Group and the Bank are predominantly based on historical simulation which incorporate the following features:

- historical market rates and prices are calculated with reference to foreign exchange rates and commodity prices, interest rates, equity prices and the associated volatilities;
- potential market movements utilised for VAR are calculated with reference to data from the past two years; and
- VAR measures are calculated to a 99 per cent confidence level and use a one-day holding period.

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

The Group and the Bank routinely validate the accuracy of their VAR models by back-testing them against both actual and hypothetical profit and loss against the trading VAR numbers. Hypothetical profit and loss excludes non-modelled items such as fees, commissions and revenues of intra-day transactions. 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.

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 Berhad (RM'000)

	At 31 December 2018	**Average**	**Maximum**	**Minimum**
Foreign currency risk	**877**	**751**	**4,358**	**26**
Interest rate risk	**3,665**	**3,978**	**8,116**	**2,042**
Credit spread risk	**55**	**49**	**442**	**12**
Overall	**3,735**	**4,165**	**8,832**	**2,061**
	At 31 December 2017	Average	Maximum	Minimum
Foreign currency risk	3,953	2,216	6,432	42
Interest rate risk	2,949	6,600	13,527	1,793
Credit spread risk	103	72	524	83
Overall	4,865	6,738	13,868	2,822

d) Market risk management (Cont'd)

(ii) Value at risk (VAR) (Cont'd)

HSBC Amanah Malaysia Berhad (RM'000)

	At 31 December 2018	Average	Maximum	Minimum
Foreign currency risk	**68**	**65**	**384**	**5**
Profit rate risk	**52**	**74**	**114**	**20**
Credit spread risk	**-**	**6**	**93**	**-**
Overall	**77**	**109**	**385**	**34**
	At 31 December 2017	Average	Maximum	Minimum
Foreign currency risk	36	48	112	8
Profit rate risk	22	28	35	4
Credit spread risk	-	-	-	-
Overall	52	62	135	25

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 the risks offset during that period. 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.

(iii) Exposure to interest/profit rate risk – non trading portfolios

Interest/profit rate risk 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's and the Bank's retail and commercial banking assets and liabilities, and financial investments designated as available for sale. The risk arises from timing mismatches in the repricing of non-traded assets and liabilities and is the potential adverse impact of changes in interest rates on earnings and capital. 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.

In order to manage this structural interest/profit rate risk, the non-traded assets asset is transferred to Balance Sheet Management based on their repricing and maturity characteristics. For assets and liabilities with no defined maturity or repricing characteristics, behaviouralisation is used to assess the interest rate risk profile. 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 net exposure is monitored against the limits granted by regional WCMR for the respective portfolios and, depending on the view on future market movement, economically hedged with the use of financial instruments within agreed limits.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

(iii) Exposure to interest/profit rate risk – non trading portfolios (Cont'd)

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), where all other economic variables are held constant. 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.

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

a) Sensitivity of projected Net Interest/Finance Income

Change in projected net interest/finance income in next 12 months arising from a shift in profit rates of:

	Group (RM'000)			
	31 Dec 18		31 Dec 17	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**67,416**	**(93,584)**	36,272	(83,246)
USD	**45,789**	**(57,377)**	22,261	(23,086)
Others	**2,691**	**(14,301)**	1,485	(13,783)
	115,896	**(165,262)**	60,018	(120,115)

	Bank (RM'000)			
	31 Dec 18		31 Dec 17	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**82,393**	**(102,405)**	66,069	(101,520)
USD	**33,033**	**(42,269)**	13,799	(13,120)
Others	**(4,001)**	**(5,733)**	1,917	(13,288)
	111,425	**(150,407)**	81,785	(127,928)

b) Sensitivity of projected Economic value of equity

Change in projected economic value of equity arising from a shift in profit rates of :

	Group (RM'000)			
	31 Dec 18		31 Dec 17	
Basis point parallel shift in yield curve	***+200bps***	***-200bps***	*+200bps*	*-200bps*
RM	**275,180**	**(278,468)**	108,700	(112,659)
USD	**94,669**	**(132,594)**	42,277	(55,061)
Others	**69,567**	**(51,651)**	81,945	(58,958)
	439,416	**(462,713)**	232,922	(226,678)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

(iii) Exposure to interest/profit rate risk – non trading portfolios (Cont'd)

b) Sensitivity of projected Economic value of equity (Cont'd)

Change in projected economic value of equity arising from a shift in profit rates of (Cont'd):

	Bank (RM'000)			
	31 Dec 18		31 Dec 17	
Basis point parallel shift in yield curve	***+200bps***	***-200bps***	*+200bps*	*-200bps*
RM	**341,580**	**(361,082)**	194,046	(211,160)
USD	**91,427**	**(127,161)**	42,645	(53,329)
Others	**69,003**	**(51,661)**	82,623	(59,845)
	502,010	**(539,904)**	319,314	(324,334)

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

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.

	Group (RM'000)			
	31 Dec 18		31 Dec 17	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**(137,858)**	**137,858**	(155,455)	155,455
USD	**(14,034)**	**14,034**	(10,549)	10,549
CNY	**(95)**	**95**	(156)	156
	(151,987)	**151,987**	(166,160)	166,160

	Bank (RM'000)			
	31 Dec 18		31 Dec 17	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**(101,528)**	**101,528**	(120,067)	120,067
USD	**(14,034)**	**14,034**	(10,549)	10,549
CNY	**(95)**	**95**	(156)	156
	(115,657)	**115,657**	(130,772)	130,772

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

(iv) Foreign exchange risk

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

	Group (RM'000)			
	31 Dec 18		31 Dec 17	
Appreciation/depreciation	***+1%***	***-1%***	*+1%*	*-1%*
Impact to profit after income tax expense	**1,729**	**(1,729)**	2,743	(2,743)

	Bank (RM'000)			
	31 Dec 18		31 Dec 17	
Appreciation/depreciation	***+1%***	***-1%***	*+1%*	*-1%*
Impact to profit after income tax expense	**1,636**	**(1,636)**	2,717	(2,717)

Change in foreign exchange rate has no significant impact to other comprehensive income for the financial year ended 31 December 2018 and 31 December 2017.

The Group and the Bank measure the foreign exchange sensitivity based on the foreign exchange net open positions (including foreign exchange structural position) under an adverse movement in all foreign currencies against the functional currency – RM. The result implies that the Group and the Bank may be subject to additional translation (losses)/gains if the RM appreciates against other currencies and vice versa.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

v) 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.

	Non-trading book								
Group 31 December 2018	**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	**7,457,392**	**-**	**-**	**-**	**-**	**450,799**	**-**	**7,908,191**	**2.97**
- impairment allowances	**-**	**-**	**-**	**-**	**-**	**(32)**	**-**	**(32)**	**-**
Securities purchased under resale agreements	**1,532,477**	**345,434**	**679,287**	**-**	**-**	**-**	**-**	**2,557,198**	**3.41**
Deposits and placements with banks and other financial institutions	**-**	**227,535**	**-**	**-**	**-**	**-**	**-**	**227,535**	**3.00**
Financial assets at FVTPL	**-**	**-**	**-**	**-**	**-**	**-**	**2,327,385**	**2,327,385**	**3.71**
Financial investments at FVOCI	**1,332,680**	**2,732,401**	**1,719,485**	**7,195,625**	**552,662**	**187,464**	**-**	**13,720,317**	**3.42**
Loans, advances and financing									
- performing	**20,045,730**	**30,996,559**	**826,778**	**609,401**	**348,617**	**-**	**-**	**52,827,085**	**5.01**
- impaired [1]	**-**	**-**	**-**	**-**	**-**	**1,105,155**	**-**	**1,105,155**	**-**
- impairment allowances	**-**	**-**	**-**	**-**	**-**	**(623,747)**	**-**	**(623,747)**	**-**
Derivative financial assets	**-**	**-**	**-**	**329**	**-**	**-**	**1,299,610**	**1,299,939**	**-**
Other assets	**-**	**-**	**-**	**-**	**-**	**207,502**	**298,252**	**505,754**	**-**
Total Financial Assets	**30,368,279**	**34,301,929**	**3,225,550**	**7,805,355**	**901,279**	**1,327,141**	**3,925,247**	**81,854,780**	
LIABILITIES									
Deposits from customers	**32,415,305**	**5,878,925**	**8,386,793**	**600,191**	**289**	**9,865,650**	**-**	**57,147,153**	**2.06**
Deposits and placements from banks and other financial institutions	**3,261,079**	**154,107**	**383,972**	**1,695,153**	**-**	**24,440**	**-**	**5,518,751**	**1.85**
Repurchase agreement	**147,871**	**-**	**-**	**-**	**-**	**-**	**-**	**147,871**	**-**
Bills payable	**-**	**-**	**-**	**-**	**-**	**250,704**	**-**	**250,704**	**-**
Multi-Currency Sukuk Programme	**-**	**-**	**501,173**	**1,254,108**	**-**	**-**	**-**	**1,755,281**	**4.02**
Subordinated liabilities	**-**	**-**	**-**	**500,000**	**595,987**	**-**	**-**	**1,095,987**	**4.53**
Derivative financial liabilities	**-**	**-**	**158**	**9,528**	**-**	**-**	**1,106,599**	**1,116,285**	**-**
Structured liabilities designated at FVTPL	**73,538**	**93,299**	**841,123**	**3,142,764**	**7,517**	**-**	**-**	**4,158,241**	**2.93**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**1,426,574**	**281,598**	**1,708,172**	**-**
- provision for credit commitments	**-**	**-**	**-**	**-**	**-**	**8,598**	**-**	**8,598**	**-**
Total Financial Liabilities	**35,897,793**	**6,126,331**	**10,113,219**	**7,201,744**	**603,793**	**11,575,966**	**1,388,197**	**72,907,043**	
Total interest/profit sensitivity gap	**(5,529,514)**	**28,175,598**	**(6,887,669)**	**603,611**	**297,486**	**(10,248,825)**	**2,537,050**	**8,947,737**	

[1] This is arrived at after deducting Stage 3 credit impaired allowance from impaired loans/financing.

5 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

v) Interest/Profit Rate Risk (Cont'd)

Group 31 December 2017	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	9,925,659	-	-	-	-	388,117	-	10,313,776	2.49
Securities purchased under resale agreements	1,048,527	916,403	-	-	-	-	-	1,964,930	3.11
Deposits and placements with banks and other financial institutions	-	709,999	-	-	-	-	-	709,999	2.71
Financial assets held-for-trading	-	-	-	-	-	-	1,988,719	1,988,719	3.50
Financial investments available-for-sale	128,345	1,342,578	598,155	7,533,920	-	177,407	-	9,780,405	3.29
Loans, advances and financing									
- performing	17,701,777	30,481,811	2,444,241	693,699	378,823	-	-	51,700,351	4.73
- impaired [1]	-	-	-	-	-	798,139	-	798,139	-
- collective allowance	-	-	-	-	-	(518,836)	-	(518,836)	-
Derivative financial assets	790	431	-	2,288	-	-	2,041,716	2,045,225	-
Other assets	-	-	-	-	-	190,982	46,136	237,118	-
Total Financial Assets	28,805,098	33,451,222	3,042,396	8,229,907	378,823	1,035,809	4,076,571	79,019,826	
LIABILITIES									
Deposits from customers	32,232,268	5,456,211	7,810,470	326,361	-	10,725,841	-	56,551,151	1.94
Deposits and placements from banks and other financial institutions	2,662,384	1,013,066	223,417	1,431,967	-	22,775	-	5,353,609	1.54
Bills payable	-	-	-	-	-	318,009	-	318,009	-
Multi-Currency Sukuk Programme	-	-	-	1,252,829	-	-	-	1,252,829	3.80
Subordinated liabilities	143	162	-	500,000	583,598	-	-	1,083,903	3.75
Derivative financial liabilities	207	26	217	8,733	-	-	2,087,222	2,096,405	-
Other liabilities	-	-	-	-	-	1,018,025	2,945,630	3,963,655	1.72
Total Financial Liabilities	34,895,002	6,469,465	8,034,104	3,519,890	583,598	12,084,650	5,032,852	70,619,561	
Total interest/profit sensitivity gap	(6,089,904)	26,981,757	(4,991,708)	4,710,017	(204,775)	(11,048,841)	(956,281)	8,400,265	

[1] This is arrived at after deducting individual impairment allowance from impaired loans/financing.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

v) Interest/Profit Rate Risk (Cont'd)

Bank 31 December 2018	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	**4,785,927**	**-**	**-**	**-**	**-**	**351,343**	**-**	**5,137,270**	**2.86**
- impairment allowances	**-**	**-**	**-**	**-**	**-**	**(30)**	**-**	**(30)**	**-**
Securities purchased under resale agreements	**1,532,477**	**345,434**	**679,287**	**-**	**-**	**-**	**-**	**2,557,198**	**3.41**
Deposits and placements with banks and other financial institutions	**-**	**349,247**	**424,015**	**-**	**595,986**	**-**	**-**	**1,369,248**	**3.00**
Financial assets at FVTPL	**-**	**-**	**-**	**-**	**-**	**-**	**2,327,385**	**2,327,385**	**3.71**
Financial investments at FVOCI	**1,332,680**	**2,533,087**	**978,354**	**5,410,387**	**552,662**	**187,464**	**-**	**10,994,634**	**3.39**
Loans, advances and financing									
- performing	**14,899,935**	**23,240,706**	**639,809**	**30,662**	**414**	**-**	**-**	**38,811,526**	**4.86**
- impaired [1]	**-**	**-**	**-**	**-**	**-**	**674,843**	**-**	**674,843**	**-**
- impairment allowances	**-**	**-**	**-**	**-**	**-**	**(315,213)**	**-**	**(315,213)**	**-**
Derivative financial assets	**-**	**-**	**-**	**329**	**-**	**-**	**1,302,933**	**1,303,262**	**-**
Other assets	**-**	**-**	**-**	**-**	**-**	**252,161**	**294,821**	**546,982**	**-**
Total Financial Assets	**22,551,019**	**26,468,474**	**2,721,465**	**5,441,378**	**1,149,062**	**1,150,568**	**3,925,139**	**63,407,105**	
LIABILITIES									
Deposits from customers	**26,677,812**	**3,627,538**	**5,977,006**	**260,293**	**259**	**9,159,689**	**-**	**45,702,597**	**1.88**
Deposits and placements from banks and other financial institutions	**2,330,855**	**624**	**177,122**	**289,487**	**-**	**-**	**-**	**2,798,088**	**1.40**
Repurchase agreement	**147,871**	**-**	**-**	**-**	**-**	**-**	**-**	**147,871**	
Bills payable	**-**	**-**	**-**	**-**	**-**	**232,110**	**-**	**232,110**	**-**
Subordinated liabilities	**-**	**-**	**-**	**500,000**	**595,987**	**-**	**-**	**1,095,987**	**4.64**
Derivative financial liabilities	**-**	**-**	**158**	**9,528**	**-**	**-**	**1,124,876**	**1,134,562**	**-**
Structured liabilities designated at FVTPL	**73,538**	**93,299**	**711,185**	**2,395,342**	**-**	**-**	**-**	**3,273,364**	**2.78**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**1,218,474**	**281,598**	**1,500,072**	**-**
- provision for credit commitments	**-**	**-**	**-**	**-**	**-**	**5,739**	**-**	**5,739**	**-**
Total Financial Liabilities	**29,230,076**	**3,721,461**	**6,865,471**	**3,454,650**	**596,246**	**10,616,012**	**1,406,474**	**55,890,390**	
Total interest sensitivity gap	**(6,679,057)**	**22,747,013**	**(4,144,006)**	**1,986,728**	**552,816**	**(9,465,444)**	**2,518,665**	**7,516,715**	

[1] This is arrived at after deducting Stage 3 credit impaired allowance from impaired loans/financing.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

v) Interest/Profit Rate Risk (Cont'd)

Bank 31 December 2017	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	8,592,875	-	-	-	-	286,178	-	8,879,053	2.43
Securities purchased under resale agreements	1,048,527	916,403	-	-	-	-	-	1,964,930	3.11
Deposits and placements with banks and other financial institutions	-	1,903,433	1,184,845	31,622	583,598	-	-	3,703,498	2.71
Financial assets held-for-trading	-	-	-	-	-	-	1,988,719	1,988,719	3.50
Financial investments available-for-sale	128,345	1,168,559	85,166	5,999,884	-	177,407	-	7,559,361	3.26
Loans, advances and financing									
- performing	13,624,041	22,351,489	2,263,431	82,745	21,084	-	-	38,342,790	4.56
- impaired [1]	-	-	-	-	-	530,989	-	530,989	-
- collective allowance	-	-	-	-	-	(277,928)	-	(277,928)	-
Derivative financial assets	790	431	-	2,288	-	-	2,041,496	2,045,005	-
Other assets	-	-	-	-	-	349,089	46,136	395,225	-
Total Financial Assets	23,394,578	26,340,315	3,533,442	6,116,539	604,682	1,065,735	4,076,351	65,131,642	
LIABILITIES									
Deposits from customers	26,714,239	3,728,892	5,877,576	185,895	-	10,010,045	-	46,516,647	1.86
Deposits and placements from banks and other financial institutions	2,658,575	1,013,066	223,417	537,709	-	-	-	4,432,767	1.08
Bills payable	-	-	-	-	-	301,331	-	301,331	-
Subordinated liabilities	143	162	-	500,000	583,598	-	-	1,083,903	3.95
Derivative financial liabilities	207	-	87	8,398	-	-	2,100,563	2,109,255	-
Other liabilities	-	-	-	-	-	905,922	2,662,710	3,568,632	1.62
Total Financial Liabilities	29,373,164	4,742,120	6,101,080	1,232,002	583,598	11,217,298	4,763,273	58,012,535	
Total interest sensitivity gap	(5,978,586)	21,598,195	(2,567,638)	4,884,537	21,084	(10,151,563)	(686,922)	7,119,107	

[1] This is arrived at after deducting individual impairment allowance from impaired loans/financing.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

(vi) 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. The Group and the Bank manage 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.

(vii) 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.

(viii) Stress testing

The Group and the Bank operate a comprehensive stress testing programme that supports our risk management and capital planning. It includes execution of stress tests mandated by our regulators, as well as internal stress tests and reverse stress tests. Our stress testing is carried out within a robust governance framework, supported by dedicated teams and is overseen at the most senior level of the Group and the Bank. Our stress testing programme assesses our capital strength through a rigorous examination of our resilience to external shocks. It also helps us understand and mitigate risks and informs our decisions about capital levels.

Internal stress tests are an important element in our risk management and capital management frameworks. Our capital plan is assessed through a range of stress scenarios which explore risks identified by management. They include potential adverse macroeconomic, geopolitical and operational risk events, and other potential events that are specific to the Group and the Bank. The selection of scenarios reflects our top and emerging risks identification process and our risk appetite. Stress testing analysis helps management understand the nature and extent of vulnerabilities to which the bank is exposed. Using this information, management decides whether risks can or should be mitigated through management actions or, if they were to crystallise, should be absorbed through capital. This in turn informs decisions about preferred capital levels.

Reverse stress tests are conducted annually at the Group and the Bank and, where required, subsidiary entity level in order to understand which potential extreme conditions would make our business model nonviable. Reverse stress testing identifies potential stresses and vulnerabilities which the Group and the Bank might face, and helps inform early warning triggers, management actions and contingency plans designed to mitigate risks.

e) Operational risk management

Operational risk is the risk to achieving the Group's and the Bank's strategy or objectives as a result of inadequate or failed internal processes, people and systems or from external events. Responsibility for minimising operational risk lies with the Group's and the Bank's staff. All staff are required to manage the operational risks of the business and operational activities for which they are responsible.

(i) Operational Risk Management Framework

The Group's and the Bank's Operational Risk Management Framework (ORMF) is their overarching approach for managing operational risk, the purpose of which is to:

- Identify and manage their operational risks in an effective manner;
- Remain within the operational risk appetite, which helps the organisation to understand the level of risk it is willing to accept; and
- Drive forward looking risk awareness and assist management focus.

Business and functional managers throughout the organisation are responsible for maintaining an acceptable level of internal control commensurate with the scale and nature of operations, and for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. The ORMF helps managers to fulfil these responsibilities by defining a standard risk assessment methodology and providing a tool for the systematic reporting of operational loss data.

A centralised database is used to record the results of the operational risk management process. Operational risk and control self-assessments are input and maintained by business units. Business and functional management and business risk and control managers monitor the progress of documented action plans to address shortcomings. Operational risk losses are entered into the Group Operational Risk database and are reported to the Risk Management Meeting on a monthly basis.

Activities to strengthen the Group's and the Bank's risk culture and better embed the use of ORMF were further implemented in 2018. In particular the use of activity-based "Three Lines of Defence" model sets out roles and responsibilities for managing operational risks on a daily basis.

(ii) Three Lines of Defence

The Group and the Bank use the Three Lines of Defence model to delineate management accountabilities and responsibilities over risk management and the control environment, thereby creating a robust control environment to manage inherent risks. The model underpins the Group's and the Bank's approach to strong risk management by defining responsibilities, encouraging collaboration and enabling efficient coordination of risk and control activities.

The three lines consists of:

- The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them and ensuring that the right controls and assessments are in place to mitigate these risks.
- The second line of defence sets the policy and guidelines for managing the risks, provides advice and guidance in relation to risk and challenge the first line of defence on effective risk management.
- The third line of defence is Internal Audit which helps the Board and Executive Committee to protect the assets, reputation and sustainability of the Group and the Bank.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

e) Operational risk management (Cont'd)

(iii) Independent Risk Function

The Risk function, headed by the Chief Risk Officer, is responsible for enterprise-wide risk oversight. This includes establishing and monitoring of risk profiles and forward-looking risk identification and management. The Risk function is made up of sub-functions covering all risks to our operations and forms part of the second line of defence. It is independent from the global businesses, including sales and trading functions, to provide challenge, appropriate oversight and balance in risk/return decisions.

(iv) Exposures

The Group and the Bank continues to strengthen those controls that manage the Group's and the Bank's most material risks by:

- Further embedding Global Standards to ensure that the Group and the Bank know and protect their customers, ask the right questions and escalate concerns;
- Increased monitoring and enhanced detective controls to manage those fraud risks which arise from new technologies and new ways of banking;
- Strengthening internal security controls to prevent cyber-attacks;
- Improve controls and security to protect customers when using digital channels.

5 Financial risk management (Cont'd)

f) Capital management

The Group's and the Bank's approach to capital management is driven by their strategic and organisational requirements, taking into account the regulatory, economic and commercial environment in which we operate.

It is the Group's and the Bank's objective to maintain a strong capital base to support the development of their business and to meet regulatory capital requirements at all times. The policy on capital management is underpinned by a capital management framework, which enables the Group and the Bank to manage their capital in a consistent manner.

The Group's and the Bank's capital management process is articulated in their annual capital plan which is approved by the Board. The plan is drawn up with the objective of maintaining both an appropriate amount of capital and an optimal mix between the different components of capital.

In accordance with Capital Management Framework, capital generated by subsidiaries in excess of planned requirements is returned to the parent companies, normally by way of dividends.

The Bank is primarily the provider of capital to its subsidiaries and these investments are substantially funded by the Bank's own capital issuance and profit retention. As part of its capital management process, the Bank seeks to maintain a prudent balance between the composition of its capital and that of its investment in subsidiaries.

The principal forms of capital are included in the following balances on the consolidated balance sheet: share capital, other equity instruments, retained profits, other reserves and subordinated liabilities.

(i) Externally imposed capital requirements

The Group's 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 do not have any Additional Tier 1 Capital as at 31 December 2018.

- Tier 2 capital, which includes qualifying subordinated liabilities, impairment allowances equal to 12-months and lifetime expected credit losses for non-credit impaired loans (commonly known as Stage 1 and 2 provisions), regulatory reserve, and the element of the fair value reserve relating to revaluation of property which are disclosed as regulatory adjustments.

(ii) Basel III

The Group and the Bank are required to comply with BNM's Capital Adequacy Framework (Capital Components) Guideline for the purpose of computing regulatory capital adequacy ratios. Under the said Guideline, the Group and the Bank are required to maintain the minimum capital adequacy ratios for Common Equity Tier 1 (CET1), Tier 1 and Total Capital Ratios of 4.5%, 6.0% and 8.0% respectively.

With effect from 1 January 2016, banking institutions in Malaysia are also required to maintain capital buffers above the minimum capital adequacy ratios. The capital buffer requirements comprise Capital Conservation Buffer (CCB) of 2.5%, which is to be phased-in from 2016 to 2019, and the Countercyclical Capital Buffer (CCyB) ranging between 0% to 2.5%. CCB is intended to build up capital buffers by individual banking institutions during normal times that can be drawn down during stress periods while CCyB is intended to protect the banking sector as a whole from the build-up of systemic risk during an economic upswing when aggregate credit growth tends to be excessive.

In addition, the Group and the Bank are also required to set further buffers to reflect risks not included in the regulatory capital calculation, arising from internal assessment of risks and the results of stress tests.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Financial risk management (Cont'd)

f) Capital management (Cont'd)

(iii) Leverage Ratio

Basel III introduces a simple non risk-based leverage ratio as a complementary measure to the risk-based Capital Adequacy Framework. It aims to constrain the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The ratio is a volume-based measure calculated as Basel III Tier 1 Capital divided by Total on- and off-balance sheet exposures.

The Group and the Bank are required to comply with BNM Leverage Ratio Framework which came into effect on 1 January 2018. This includes the implementation of the leverage ratio framework in Malaysia with the minimum leverage ratio requirement of 3%.

6 Use of estimates and judgments

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 4.

The accounting policies that are deemed critical to the Group's 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 judgment including the use of assumptions and estimation, are discussed below.

a) Impairment of loans, advances and financing

The Group's and the Bank's accounting policy for losses arising from the impairment of customer loans, advances and financing is described in Note 4(l). 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 judgments 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Use of estimates and judgments (Cont'd)

b) Fair value of financial instruments carried at fair value

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 manage 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 measure the fair value of the group of financial instruments on a net basis, but present the underlying financial assets and liabilities separately in the financial statements, unless they satisfy the offsetting criteria as described in Note 4(g)(iv).

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			
2018	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Financial assets at FVTPL (Note 10)	**1,687,312**	**640,073**	**-**	**2,327,385**
Financial investments at FVOCI (Note 12)	**9,220,769**	**4,312,084**	**187,464**	**13,720,317**
Derivative financial assets (Note 44)	**4,485**	**1,295,307**	**147**	**1,299,939**
	10,912,566	**6,247,464**	**187,611**	**17,347,641**
Structured liabilities	**26,520**	**3,987,210**	**171,031**	**4,184,761**
Derivative financial liabilities (Note 44)	**15,225**	**1,100,022**	**1,038**	**1,116,285**
Multi-Currency Sukuk Programme (Note 27)	**-**	**1,755,281**	**-**	**1,755,281**
	41,745	**6,842,513**	**172,069**	**7,056,327**
2017				
Financial assets held-for-trading (Note 9)	1,806,529	182,190	-	1,988,719
Financial investments available-for-sale[1] (Note 11)	7,862,578	1,740,420	177,407	9,780,405
Derivative financial assets (Note 44)	4,186	2,036,335	4,704	2,045,225
	9,673,293	3,958,945	182,111	13,814,349
Structured liabilities	21,372	2,384,261	469,125	2,874,758
Derivative financial liabilities (Note 44)	3,514	2,091,083	1,808	2,096,405
Multi-Currency Sukuk Programme (Note 27)	-	1,252,829	-	1,252,829
	24,886	5,728,173	470,933	6,223,992

[1] *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.*

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Use of estimates and judgments (Cont'd)

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

	Bank			
2018	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Financial assets at FVTPL (Note 10)	**1,687,312**	**640,073**	**-**	**2,327,385**
Financial investments at FVOCI (Note 12)	**6,694,400**	**4,112,770**	**187,464**	**10,994,634**
Derivative financial assets (Note 44)	**4,855**	**1,298,260**	**147**	**1,303,262**
	8,386,567	**6,051,103**	**187,611**	**14,625,281**
Structured liabilities	**26,520**	**3,121,146**	**152,217**	**3,299,883**
Derivative financial liabilities (Note 44)	**14,956**	**1,118,422**	**1,184**	**1,134,562**
	41,476	**4,239,568**	**153,401**	**4,434,445**
2017				
Financial assets held-for-trading (Note 9)	1,806,529	182,190	-	1,988,719
Financial investments available-for-sale[2] (Note 11)	5,815,553	1,566,401	177,407	7,559,361
Derivative financial assets (Note 44)	4,160	2,036,141	4,704	2,045,005
	7,626,242	3,784,732	182,111	11,593,085
Structured liabilities	21,372	2,101,341	469,125	2,591,838
Derivative financial liabilities (Note 44)	3,462	2,103,985	1,808	2,109,255
	24,834	4,205,326	470,933	4,701,093

[2] *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.*

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Use of estimates and judgments (Cont'd)

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

(i) 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.

Where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. For inactive markets, the Group and the Bank sources alternative market information, with greater weight given to information that is considered to be more relevant and reliable. Examples of the factors considered are price observability, instrument comparability, consistency of data sources, underlying data accuracy and timing of prices.

For fair values determined using valuation models, the control framework includes development or validation by independent support functions of the model logic, inputs, model outputs and adjustments. Valuation models are subject to a process of due diligence before becoming operational and are calibrated against external market data on an ongoing basis.

Changes in fair value are generally subject to a profit and loss analysis process and are disaggregated into high-level categories including portfolio changes, market movements and other fair value adjustments.

(ii) Determination of fair value

Fair values are determined according to the following hierarchy:

- Level 1 – Valuation technique using quoted market price

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

- Level 2 – Valuation technique using observable inputs

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

- Level 3 – Valuation technique with significant unobservable inputs

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

  The judgment 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.

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

(iii) 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 structured 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.

(iv) Fair value adjustments

Fair value adjustments are adopted when the Group and the Bank determine there are additional factors considered by market participants that are not incorporated within the valuation model. Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement, such as when models are enhanced and therefore fair value adjustments may no longer be required.

- **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.

6 Use of estimates and judgments (Cont'd)

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

(iv) Fair value adjustments (Cont'd)

- **Risk-related adjustments (Cont'd)**

(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, an adjustment may be necessary to reflect the likelihood that market participants would adopt more conservative values for uncertain parameters and/or model assumptions, than those used in the Group's and the Bank's valuation model.

(iii) Credit valuation adjustment (CVA) and Debit valuation adjustment(DVA)

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

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

The Group and the Bank calculate a separate CVA and DVA for each legal entity, and for each counterparty to which the entity has exposure. With the exception of central clearing parties, all third-party counterparties are included in the CVA and DVA calculations, and these adjustments are not netted across group entities.

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 the Bank, to the Group's and the Bank's expected positive exposure 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 the Group and the Bank and multiplying the result 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 uses a simulation methodology, which incorporates a range of potential exposures over the life of the portfolio, to calculate the expected positive exposure to a counterparty. The simulation methodology includes credit mitigants, such as counterparty netting agreements and collateral agreements with the counterparty.

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

(iv) Funding fair value adjustment (FFVA)

The FFVA is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. The expected future funding exposure is calculated by a simulation methodology, where available and is adjusted for events that may terminate the exposure, such as the default of the Group or the Bank or the counterparty. The FFVA and DVA are calculated independently.

- **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. In these circumstances, model limitation adjustments are adopted.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Use of estimates and judgments (Cont'd)

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

(iv) Fair value adjustments (Cont'd)

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

  The Group and the Bank calculate a separate CVA and DVA, for each counterparty to which the Group and the Bank have exposure. 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 do not net these adjustments across the group's entities. The Group and the Bank review and refine the CVA and DVA methodologies on an ongoing basis.

  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 the result 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.

  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 PD by the counterparty. When there is significant wrong-way risk, a trade-specific approach is applied to reflect this risk in the valuation.

- **Valuation of uncollateralised derivatives**

  In line with evolving industry practice, FFVA reflects the funding of uncollateralised derivative exposure at rates other than overnight indexed swap rate (OIS). As at 31 December 2018, the FFVA was +RM2.0 million for the Group (2017: +RM2.9 million) and +RM2.5 million for the Bank (2017: +RM4.0 million), 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 and the Bank will continue to monitor industry evolution and refine the calculation methodology as necessary.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Use of estimates and judgments (Cont'd)

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

(v) 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:

	2018			2017		
	Derivative financial assets	**Derivative financial liabilities**	**Structured liabilities**	Derivative financial assets	Derivative financial liabilities	Structured liabilities
Group (RM'000)						
Balance at 1 January	**4,704**	**1,808**	**469,125**	26,604	14,060	692,379
Total gains or losses in profit or loss	**(2,660)[1]**	**(655)[2]**	**(38,338)[2]**	(2,569)[1]	(8,347)[2]	(44,474)[2]
Issues	**-**	**-**	**19,588**	-	-	-
Settlements	**-**	**-**	**(162,762)**	-	-	(178,780)
Transfer out of Level 3	**(1,897)**	**(115)**	**(116,582)**	(19,331)	(3,905)	-
Balance at 31 December	**147**	**1,038**	**171,031**	4,704	1,808	469,125

	2018			2017		
	Derivative financial assets	**Derivative financial liabilities**	**Structured liabilities**	Derivative financial assets	Derivative financial liabilities	Structured liabilities
Bank (RM'000)						
Balance at 1 January	**4,704**	**1,808**	**469,125**	26,604	14,060	692,379
Total gains or losses in profit or loss	**(2,660)[1]**	**(509)[2]**	**(37,564)[2]**	(2,569)[1]	(8,347)[2]	(44,474)[2]
Issues	**-**	**-**	**-**	-	-	-
Settlements	**-**	**-**	**(162,762)**	-	-	(178,780)
Transfer out of Level 3	**(1,897)**	**(115)**	**(116,582)**	(19,331)	(3,905)	-
Balance at 31 December	**147**	**1,184**	**152,217**	4,704	1,808	469,125

[1] Denotes losses in the Profit or Loss
[2] Denotes gains in the Profit or Loss

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

6 Use of estimates and judgments (Cont'd)

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

(v) 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:

	Derivative financial assets	**Derivative financial liabilities**	**Structured liabilities**
2018			
Group (RM'000)			
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	**(2,549)**[1]	**1,694**[1]	**35,994**[1]
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	**(111)**[1]	**(1,039)**[2]	**2,344**[1]
2017			
Group (RM'000)			
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	(1,782)[1]	(1,559)[2]	(45,843)[2]
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	(787)[1]	(6,788)[2]	1,369[1]
2018			
Bank (RM'000)			
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	**(2,549)**[1]	**1,694**[1]	**35,994**[1]
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	**(111)**[1]	**(1,185)**[2]	**1,570**[1]
2017			
Bank (RM'000)			
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	(1,782)[1]	(1,559)[2]	(45,843)[2]
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	(787)[1]	(6,788)[2]	1,369[1]

[1] Denotes losses in the Profit or Loss

[2] Denotes gains in the Profit or Loss

6 Use of estimates and judgments (Cont'd)

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

(vi) 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	**2018 : NIL** 2017 : 3.00% - 12.79%
Structured liabilities	Option model	Foreign currency volatility	**2018 : 2.02% - 17.88%** 2017 : 2.50% - 12.79%
		Long term equity volatility	**2018 : 18.00% - 21.74%** 2017 : 0.00% - 18.00%
		Equity/Equity Index Correlation	**2018 : 0.48**[1] 2017 : 0.48[1]

[1] Upper and lower ranges are the same.

(vii) 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's and the Bank's long option positions (i.e. the positions in which the Group and the Bank have purchased options), while the Group's 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 to 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.

6 Use of estimates and judgments (Cont'd)

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

(vii) Key unobservable inputs to Level 3 financial instruments (Cont'd)

- *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.

(viii) 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:

	2018 Effect on profit or loss		2017 Effect on profit or loss	
	Favourable changes	**Unfavourable changes**	Favourable changes	Unfavourable changes
Group (RM'000)				
Derivative financial assets	**-**	**-**	404	(404)
Derivative financial liabilities	**-**	**-**	164	(164)
Structured liabilities	**119**	**(119)**	110	(110)
	119	**(119)**	678	(678)

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 judgmental, 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 Use of estimates and judgments (Cont'd)

c) *Fair values of financial assets and liabilities not measured at fair value*

The fair value of each financial asset and liabilities presented in the statements of financial position of the Group and the Bank approximates the carrying amount as at reporting date, except for the following:

	Group			
	31 Dec 2018 Carrying amount RM'000	**31 Dec 2018 Fair value RM'000**	31 Dec 2017 Carrying amount RM'000	31 Dec 2017 Fair value RM'000
Financial Assets				
Loans, advances and financing	**53,308,493**	**52,962,512**	51,979,654	52,054,398
Financial Liabilities				
Deposits from customers	**57,147,153**	**57,042,782**	56,551,151	57,918,193
Deposits and placements from banks and other financial institutions	**5,518,751**	**5,583,452**	5,353,609	5,382,860
Subordinated liabilities	**1,095,987**	**1,138,665**	1,083,903	1,127,276

	Bank			
	31 Dec 2018 Carrying amount RM'000	**31 Dec 2018 Fair value RM'000**	31 Dec 2017 Carrying amount RM'000	31 Dec 2017 Fair value RM'000
Financial Assets				
Loans, advances and financing	**39,171,156**	**38,831,233**	38,595,851	38,659,506
Financial Liabilities				
Deposits from customers	**45,702,597**	**45,647,517**	46,516,647	47,885,722
Deposits and placements from banks and other financial institutions	**2,798,088**	**2,813,325**	4,432,767	4,445,603
Subordinated liabilities	**1,095,987**	**1,120,201**	1,083,903	1,127,276

The methods and assumptions used in estimating the fair values of financial instruments other than those already mentioned in Note 4(g)(v) are as follows:

- **Cash and short term funds**
- **Securities purchased under resale agreements**
- **Deposits and placements with banks and other financial institutions**
- **Repurchase agreement**
- **Bills payable**

The carrying amounts approximate fair values due to their relatively short-term nature or reprise to current market rates frequently.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Use of estimates and judgments (Cont'd)

c) *Fair values of financial assets and liabilities not measured at fair value (Cont'd)*

(i) Loans, advances and financing

To determine the fair value of loans,advances and financing to banks and customers, loans, advances and financing are segregated, as far as possible, into portfolios of similar characteristics. Fair values are based on observable market transactions, when available. When they are unavailable, fair values are estimated using valuation models incorporating a range of input assumptions. These assumptions may include: value estimates from third-party brokers reflecting over-the-counter trading activity; forward-looking discounted cash flow models, taking account of expected customer prepayment rates, using assumptions that the Bank believes are consistent with those that would be used by market participants in valuing such loans; new business rates estimates for similar loans; and trading inputs from other market participants including observed primary and secondary trades. From time to time, the Group and the Bank may engage a third-party valuation specialist to measure the fair value of a pool of loans.

The fair value of loans,advances and financing reflect expected credit losses at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans,advances and financing, and the fair value effect of repricing between origination and the balance sheet date. For credit impaired loans,advances and financing, fair value is estimated by discounting the future cash flows over the time period they are expected to be recovered.

(ii) 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 approximated by its carrying value.

(iii) Subordinated liabilities
Multi-Currency Sukuk Programme

The fair value of subordinated liabilities and the Multi-Currency Sukuk Programme issued at cost were estimated based on discounted cash flows using rates currently offered for debt instruments of similar remaining maturities and credit grading.

Fair value hierarchy

The following tables sets out the fair values of the financial assets and financial liabilities not measured at fair value but for which fair value is derived, and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

	Group				
31 December 2018 **RM'000**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial Assets					
Loans, advances and financing	**-**	**-**	**52,962,512**	**52,962,512**	**53,308,493**
Financial Liabilities					
Deposits from customers	**-**	**57,042,782**	**-**	**57,042,782**	**57,147,153**
Deposits and placements from banks and other financial institutions	**-**	**5,583,452**	**-**	**5,583,452**	**5,518,751**
Subordinated liabilities	**-**	**1,138,665**	**-**	**1,138,665**	**1,095,987**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Use of estimates and judgments (Cont'd)

c) *Fair values of financial assets and liabilities not measured at fair value (Cont'd)*

Fair value hierarchy (Cont'd)

			Group		
31 December 2017 **RM'000**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial Assets					
Loans, advances and financing	-	-	52,054,398	52,054,398	51,979,654
Financial Liabilities					
Deposits from customers	-	57,918,193	-	57,918,193	56,551,151
Deposits and placements from banks and other financial institutions	-	5,382,860	-	5,382,860	5,353,609
Subordinated liabilities	-	1,127,276	-	1,127,276	1,083,903

			Bank		
31 December 2018 **RM'000**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial Assets					
Loans, advances and financing	**-**	**-**	**38,831,233**	**38,831,233**	**39,171,156**
Financial Liabilities					
Deposits from customers	**-**	**45,647,517**	**-**	**45,647,517**	**45,702,597**
Deposits and placements from banks and other financial institutions	**-**	**2,813,325**	**-**	**2,813,325**	**2,798,088**
Subordinated liabilities	**-**	**1,120,201**	**-**	**1,120,201**	**1,095,987**

			Bank		
31 December 2017 **RM'000**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial Assets					
Loans, advances and financing	-	-	38,659,506	38,659,506	38,595,851
Financial Liabilities					
Deposits from customers	-	47,885,722	-	47,885,722	46,516,647
Deposits and placements from banks and other financial institutions	-	4,445,603	-	4,445,603	4,432,767
Subordinated liabilities	-	1,127,276	-	1,127,276	1,083,903

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

7 Cash and Short-Term Funds

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Cash and balances with banks and other financial institutions	**851,050**	772,911	**685,654**	556,992
Money at call and interbank placements maturing within one month	**7,057,109**	9,540,865	**4,451,586**	8,322,061
	7,908,159	10,313,776	**5,137,240**	8,879,053

Money at call and interbank placements maturing within one month is within Stage 1 allocation (12 -months ECL) with RM15,000 impairment allowance as at 31 December 2018.

8 Deposits and Placements with Banks and Other Financial Institutions

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Licensed banks	**20,685**	9,999	**1,162,398**	3,003,498
Bank Negara Malaysia	**206,850**	700,000	**206,850**	700,000
Net deposit and placements	**227,535**	709,999	**1,369,248**	3,703,498

Included in Deposits and Placements with Banks and Other Financial Institutions of the Bank are placements with the Bank's wholly owned subsidiary, HSBC Amanah Malaysia Berhad (HBMS) of RM1,141.7 million (31 December 2017: RM2,993.5 million). The balance is within Stage 1 allocation (12 -months ECL) with nil impairment allowance as at 31 December 2018.

Cash collateral was previously reported within Deposits and Placements with Banks and Other Financial Institutions, with 31 Dec 2017 balances amounted to RM91.7 million. On 1 January 2018, the Group and the Bank have changed the accounting policy whereby cash collateral has been reclassified to Other Assets. This reclassification is to better reflect the nature of these balances and to better align the presentation of similar balances by peers. Comparative data was not restated as the reclassification is not significant in the context of the overall materiality of the financial statements.

9 Financial Assets Held-for-Trading

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
At fair value	**RM'000**	RM'000	**RM'000**	RM'000
Money market instruments:				
Malaysian Government treasury bills	-	20,238	-	20,238
Islamic treasury bills	-	100,279	-	100,279
Malaysian Government securities	-	977,129	-	977,129
Malaysian Government Islamic Sukuk	-	755,313	-	755,313
Cagamas bonds and notes	-	2,476	-	2,476
	-	1,855,435	**-**	1,855,435
Unquoted:				
Corporate bonds and Sukuk	-	133,284	-	133,284
	-	1,988,719	**-**	1,988,719

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

9 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.

	Rating	*Group*		*Bank*	
		31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
		RM'000	RM'000	**RM'000**	RM'000
Money market instruments:					
Malaysian Government treasury bills	*A+ to A-*	-	20,238	-	20,238
Islamic treasury bills	*A+ to A-*	-	100,279	-	100,279
Malaysian Government securities	*A+ to A-*	-	977,129	-	977,129
Malaysian Government Islamic Sukuk	*A+ to A-*	-	755,313	-	755,313
Cagamas bonds and notes	- [1]	-	2,476	-	2,476
Unquoted:					
Corporate bonds and Sukuk	- [1]	-	126,155	-	126,155
(including commercial paper)	AA+ to AA-	-	4,979	-	4,979
	A+ to A-	-	2,052	-	2,052
	BBB+ to BBB-	-	98	-	98
		-	1,988,719	-	1,988,719

10 Financial Assets at Fair Value through Profit and Loss (FVTPL)

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
At fair value	**RM'000**	RM'000	**RM'000**	RM'000
Money market instruments:				
Malaysian Government treasury bills	**573,248**	-	**573,248**	-
Malaysian Government securities	**1,355,514**	-	**1,355,514**	-
Malaysian Government Islamic Sukuk	**315,653**	-	**315,653**	-
Cagamas bonds and notes	**9,115**	-	**9,115**	-
	2,253,530	-	**2,253,530**	-
Unquoted:				
Corporate bonds and Sukuk	**73,855**	-	**73,855**	-
	2,327,385	-	**2,327,385**	-

Credit quality of financial assets at fair value through profit and loss based on the ratings of Standard & Poor's on the counterparties.

	Rating	*Group*		*Bank*	
		31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
		RM'000	RM'000	**RM'000**	RM'000
Money market instruments:					
Malaysian Government treasury bills	*A+ to A-*	**573,248**	-	**573,248**	-
Malaysian Government securities	*A+ to A-*	**1,355,514**	-	**1,355,514**	-
Malaysian Government Islamic Sukuk	*A+ to A-*	**315,653**	-	**315,653**	-
Cagamas bonds and notes	*A+ to A-*	**9,115**	-	**9,115**	-
Unquoted:					
Corporate bonds and Sukuk	- [1]	**40,472**	-	**40,472**	-
(including commercial paper)	AA+ to AA-	**15,082**	-	**15,082**	-
	A+ to A-	**18,203**	-	**18,203**	-
	B	**98**	-	**98**	-
		2,327,385	-	**2,327,385**	-

[1] Rated separately by another rating agency.

All the financial assets at fair value through profit and loss as disclosed above are not pledged to any counterparties.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11 Financial Investments Available-For-Sale

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Debt instruments				
Money market instruments:				
Bank Negara Malaysia bills and notes	-	817,246	-	817,246
Malaysian Government securities	-	4,186,864	-	4,186,864
Malaysian Government Islamic Sukuk	-	3,501,536	-	1,454,511
Malaysian Government Islamic treasury bills	-	74,808	-	49,872
Cagamas bonds and notes	-	374,792	-	374,792
Negotiable instruments of deposit	-	279,089	-	130,006
US treasury bond	-	362,090	-	362,090
	-	9,596,425	-	7,375,381
Unquoted:				
Corporate bonds and Sukuk	-	6,573	-	6,573
Equity instruments				
Unquoted:				
Shares	-	177,407	-	177,407
	-	9,780,405	-	7,559,361

The maturity structure of money market instruments held as financial investments available for sale is as follows:

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Maturing within one year	-	2,069,078	-	1,382,070
More than one year to three years	-	4,397,960	-	2,970,157
More than three years to five years	-	3,129,387	-	3,023,154
	-	9,596,425	-	7,375,381

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

12 Financial Investments at Fair Value through Other Comprehensive Income (FVOCI)

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Debt instruments				
Money market instruments:				
Bank Negara Malaysia bills and notes	**3,281,519**	-	**3,281,519**	-
Islamic Bank Negara bills	**411,266**	-	**411,266**	-
Malaysian Government securities	**4,442,265**	-	**4,442,265**	-
Malaysian Government Islamic Sukuk	**4,118,043**	-	**1,591,674**	-
Malaysian Government Islamic treasury bills	**199,314**	-	**-**	-
Cagamas bonds and notes	**419,789**	-	**419,789**	-
US treasury bond	**654,097**	-	**654,097**	-
	13,526,293	-	**10,800,610**	-
Unquoted:				
Corporate bonds and Sukuk	**6,560**	-	**6,560**	-
Financial Investments Designated as FVOCI				
Equity instruments				
Unquoted:				
Shares	**187,464**	-	**187,464**	-
of which				
Cagamas Holdings Berhad	***150,667***	-	***150,667***	-
Credit Guarantee Corporation Malaysia Berhad	***30,388***	-	***30,388***	-
Others	***6,409***	-	***6,409***	-
	13,720,317	-	**10,994,634**	-

The Group and the Bank have elected to designate these equity instruments at fair value through other comprehensive income as these instruments are held for business facilitation and not to generate a capital return. Gains or losses on the derecognition of these equity securities are not transferred to profit or loss. None of these equity instruments were disposed during the financial year.

The maturity structure of money market instruments held as financial investments at FVOCI is as follows:

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Maturing within one year	**5,784,454**	-	**4,844,009**	-
More than one year to three years	**5,867,787**	-	**4,313,785**	-
More than three years to five years	**1,321,194**	-	**1,089,958**	-
Over five years	**552,858**	-	**552,858**	-
	13,526,293	-	**10,800,610**	-

Included in the FVOCI balances are Malaysian Government securities pledged against the Repurchase Agreement amounted to RM150.8 million as at 31 December 2018 (31 December 2017: Nil).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13 Loans, Advances and Financing

(i) By type

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
At amortised cost	**RM'000**	RM'000	**RM'000**	RM'000
Overdrafts/cash line	**952,685**	876,611	**877,351**	794,428
Term loans/financing:				
Housing loans/financing	**18,570,714**	19,381,681	**14,241,494**	14,980,106
Syndicated term loans/financing [2]	**3,674,894**	5,272,123	**2,340,238**	3,382,154
Factoring receivables	**509,453**	236,319	**509,453**	236,319
Hire purchase receivables	**195,636**	169,852	**-**	-
Lease receivables	**539**	1,379	**-**	-
Other term loans/financing[3]	**10,286,671**	9,380,633	**5,895,250**	5,208,706
Bills receivable	**3,449,649**	2,524,261	**2,993,071**	2,415,196
Trust receipts	**2,140,273**	2,280,046	**1,616,648**	1,537,964
Claims on customers under acceptance credits	**1,579,135**	2,020,837	**1,156,842**	1,597,923
Staff loans/financing	**90,539**	107,280	**87,395**	102,633
Credit/charge cards	**3,663,256**	3,374,281	**2,587,622**	2,448,864
Revolving financing [2]	**8,806,637**	7,157,928	**7,172,272**	6,340,976
Other loans/financing	**12,159**	10,798	**8,733**	9,150
Gross loans, advances and financing	**53,932,240**	52,794,029	**39,486,369**	39,054,419
Less: - Impairment allowances (MFRS 9) [1]	**(623,747)**	-	**(315,213)**	-
- Collective impairment allowances	**-**	(518,836)	**-**	(277,928)
- Individual impairment allowances	**-**	(295,539)	**-**	(180,640)
Total net loans, advances and financing	**53,308,493**	51,979,654	**39,171,156**	38,595,851

[1] Adoption of the MFRS 9.

[2] Comparatives of RM 1,113.0 million and RM 862.3 million for the Group and for the Bank have been reclassified out from syndicated term loans/financing to revolving financing to align with the classification in the Central Credit Reference Information System (CCRIS).

[3] Included in the loans, advances and financing of the Bank at 31 December 2018 are financing which are disclosed as "Asset under Management" in the financial statements of HBMS. These details are as follows:

	Bank	
	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Syndicated term loans/financing	**1,820,336**	2,795,072
Revolving financing	**751,515**	752,088
	2,571,851	3,547,160

Syndicated Investment Account for Financing/Investment Agency Account (SIAF/IAA) arrangement is with the Bank's wholly owned subsidiary, HBMS, and the contract is based on the Wakalah principle where the Bank, solely or together with other financial institutions provide the funds, whilst the assets are managed by HBMS (as the Wakeel or agent). However, in the arrangement, the profits of the underlying assets are recognised by the Bank proportionately in relation to the funding it provides in the syndication arrangement . At the same time, risks on the financing are also proportionately borne by the Bank. Hence, the underlying assets and allowances for impairment arising thereon, if any, are proportionately recognised and accounted for by the Bank.

The recognition and derecognition treatments of the above are in accordance to Note 4(g).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13 Loans, Advances and Financing (Cont'd)

(ii) By type of customer

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Domestic non-bank financial institutions	**1,198,133**	564,529	**578,712**	-
Domestic business enterprises:				
Small medium enterprises	**6,498,801**	6,958,173	**4,515,578**	4,995,748
Others	**17,020,804**	16,224,147	**13,239,148**	12,609,721
Government and statutory bodies	**4,527**	7,222	**-**	-
Individuals	**22,141,739**	22,558,828	**15,925,155**	16,441,610
Other domestic entities	**4,804**	18,522	**3,546**	3,881
Foreign entities	**7,063,432**	6,462,608	**5,224,230**	5,003,459
	53,932,240	52,794,029	**39,486,369**	39,054,419

(iii) By residual contractual maturity

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Maturity within one year	**26,229,546**	24,408,799	**20,333,551**	18,558,054
More than one year to three years	**2,531,922**	2,911,213	**1,364,163**	1,929,070
More than three years to five years	**3,018,651**	2,559,820	**1,720,044**	1,657,946
More than five years	**22,152,121**	22,914,197	**16,068,611**	16,909,349
	53,932,240	52,794,029	**39,486,369**	39,054,419

(iv) By interest/profit rate sensitivity

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Fixed rate:				
Housing loans/financing	**194**	479	**194**	457
Hire purchase receivables	**195,636**	169,852	**-**	-
Other fixed rate loans/financing	**13,567,734**	13,236,201	**10,226,274**	10,131,075
Variable rate:				
BR/BLR/BFR plus	**22,218,713**	23,264,364	**16,826,043**	17,807,010
Cost-plus	**17,949,963**	16,123,133	**12,433,858**	11,115,877
	53,932,240	52,794,029	**39,486,369**	39,054,419

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13 Loans, Advances and Financing (Cont'd)

(v) By sector

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Agricultural, hunting, forestry and fishing	**224,321**	985,426	**205,335**	888,008
Mining and quarrying	**353,554**	240,735	**121,880**	144,359
Manufacturing	**7,512,804**	6,579,585	**6,017,712**	4,913,795
Electricity, gas and water	**156,677**	72,969	**28,415**	9,699
Construction	**3,354,705**	2,997,007	**2,571,017**	2,564,874
Real estate	**4,297,149**	4,035,514	**3,161,642**	2,961,674
Wholesale & retail trade and restaurants & hotels	**3,984,139**	3,898,913	**2,988,570**	2,994,148
Transport, storage and communication	**484,495**	1,104,049	**270,204**	554,667
Finance, insurance and business services	**3,624,914**	3,171,660	**2,584,242**	2,178,056
Household-retail	**25,301,557**	26,004,009	**18,521,411**	19,265,049
Others	**4,637,925**	3,704,162	**3,015,941**	2,580,090
	53,932,240	52,794,029	**39,486,369**	39,054,419

(vi) By purpose

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Purchase of property:				
Residential	**18,629,663**	19,450,388	**14,298,874**	15,046,578
Non residential	**1,515,174**	1,552,966	**679,307**	735,638
Purchase of securities	**4,215**	5,101	**4,215**	5,101
Purchase of transport vehicles	**21,661**	25,144	**20,406**	23,500
Purchase of fixed assets excluding land & building	**740**	2,222	**740**	2,222
Consumption credit	**6,201,636**	6,028,667	**4,000,358**	3,958,229
Construction	**2,798,190**	2,626,789	**2,230,805**	2,279,991
Working capital	**20,843,932**	20,069,341	**15,614,802**	14,814,378
Other purpose	**3,917,029**	3,033,411	**2,636,862**	2,188,782
	53,932,240	52,794,029	**39,486,369**	39,054,419

(vii) By geographical distribution

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Northern Region	**6,722,844**	6,681,364	**5,223,824**	5,184,894
Southern Region	**6,336,194**	6,413,866	**4,871,195**	4,907,206
Central Region	**38,506,545**	37,097,724	**27,424,841**	26,802,561
Eastern Region	**2,366,657**	2,601,075	**1,966,509**	2,159,758
	53,932,240	52,794,029	**39,486,369**	39,054,419

Concentration by location for loans, advances and financing is based on the location of the borrower.

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, the Federal Territory of Kuala Lumpur and the Federal Territory of Putrajaya.
The Eastern region consists of the states of Sabah, Sarawak and the Federal Territory of Labuan.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Impaired Loans, Advances and Financing

(i) Movements in impaired loans, advances and financing

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Balance at 1 January	**1,093,678**	1,026,953	**711,629**	723,427
- Adoption of MFRS 9	**(1,093,678)**	-	**(711,629)**	-
Balance restated	**-**	-	**-**	-
Classified as impaired during the financial year	**-**	1,158,562	**-**	721,988
Reclassified as performing	**-**	(533,030)	**-**	(377,514)
Amount recovered	**-**	(282,822)	**-**	(216,817)
Amount written off	**-**	(275,985)	**-**	(139,455)
Balance at 31 December	**-**	1,093,678	**-**	711,629

(ii) Movements in allowances for impaired loans, advances and financing

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
Collective allowance for impairment	**RM'000**	RM'000	**RM'000**	RM'000
Balance at 1 January	**518,836**	469,565	**277,928**	269,550
- Adoption of MFRS 9	**(518,836)**	-	**(277,928)**	-
Balance restated	**-**	-	**-**	-
Made during the financial year	**-**	393,301	**-**	185,470
Amount released	**-**	(114,775)	**-**	(70,801)
Amount written off	**-**	(229,255)	**-**	(106,291)
Balance at 31 December	**-**	518,836	**-**	277,928

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
Individual allowance for impairment	**RM'000**	RM'000	**RM'000**	RM'000
Balance at 1 January	**295,539**	230,040	**180,640**	167,283
- Adoption of MFRS 9	**(295,539)**	-	**(180,640)**	-
Balance restated	**-**	-	**-**	-
Made during the financial year	**-**	145,899	**-**	88,599
Amount released	**-**	(110,779)	**-**	(85,033)
Amount reinstated	**-**	30,379	**-**	9,791
Balance at 31 December	**-**	295,539	**-**	180,640

The impairment allowance by stage allocation upon adoption of MFRS 9 with effect from 1 January 2018 is disclosed in Note 15 (i).

(iii) Gross carrying amount movement of loans, advances and financing classified as credit impaired:

	Group	Bank
	31 Dec 2018	**31 Dec 2018**
	RM'000	**RM'000**
Gross carrying amount as at 1 January 2018	-	-
Restated upon adoption of MFRS 9	**975,557**	**652,874**
Transfer within stages	**195,005**	**123,315**
Net remeasurement due to changes in credit risk	**130,268**	**14,557**
Written-off	**(240,278)**	**(127,122)**
Others	**44,604**	**11,219**
Gross carrying amount as at 31 December 2018	**1,105,156**	**674,843**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Impaired Loans, Advances and Financing (Cont'd)

(iv) By sector

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Agricultural, hunting, forestry and fishing	**-**	58,208	**-**	58,208
Mining and quarrying	**2,704**	765	**2,000**	-
Manufacturing	**41,970**	58,786	**24,616**	40,975
Construction	**41,263**	10,306	**38,121**	10,306
Real estate	**12,855**	1,108	**12,855**	1,108
Wholesale & retail trade, restaurants & hotels	**29,776**	41,829	**18,637**	32,419
Transport, storage and communication	**22,007**	22,363	**17,854**	17,814
Finance, insurance and business services	**32,875**	38,692	**4,214**	9,382
Household-retail	**887,087**	859,867	**547,753**	541,151
Others	**34,619**	1,754	**8,793**	266
	1,105,156	1,093,678	**674,843**	711,629

(v) By purpose

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Purchase of property:				
Residential	**446,416**	523,396	**321,427**	360,433
Non residential	**43,517**	34,609	**31,693**	21,804
Purchase of transport vehicles	**207**	264	**61**	261
Consumption credit	**429,680**	322,678	**217,452**	171,096
Construction	**26,565**	13,955	**24,163**	11,169
Working capital	**133,931**	198,695	**80,029**	146,785
Other purpose	**24,840**	81	**18**	81
	1,105,156	1,093,678	**674,843**	711,629

(vi) By geographical distribution

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Northern Region	**132,945**	188,043	**93,486**	129,130
Southern Region	**117,402**	118,574	**77,119**	79,240
Central Region	**796,059**	631,951	**452,123**	360,379
Eastern Region	**58,750**	155,110	**52,115**	142,880
	1,105,156	1,093,678	**674,843**	711,629

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 ECL allowances

(i) Movements in ECL allowances for loans, advances and financing

The following table shows reconciliation from the opening to the closing balance of the ECL allowance for customer loan and advances:

	Stage 1	Stage 2	Stage 3			
	12-month ECL not credit impaired RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Lifetime ECL credit impaired Specific provision RM'000	Collective provision RM'000	Total RM'000
Group						
Balance at 1 January 2018	-	-	-	295,539	518,836	814,375
- adoption of MFRS 9	137,218	135,296	356,338	(295,539)	(518,836)	(185,523)
Balance restated	137,218	135,296	356,338	-	-	628,852
Changes due to financial assets recognised in the opening balance that have:						
- Transferred to Stage 1	39,936	(35,006)	(4,930)	-	-	-
- Transferred to Stage 2	(10,019)	22,902	(12,883)	-	-	-
- Transferred to Stage 3	(967)	(8,878)	9,845	-	-	-
New financial assets originated or purchased	32,948	-	-	-	-	32,948
Net remeasurement due to changes in credit risk	(97,894)	18,578	237,931	-	-	158,615
Asset written-off	-	-	(240,278)	-	-	(240,278)
Others	(1,268)	-	44,878	-	-	43,610
Balance at 31 December 2018	**99,954**	**132,892**	**390,901**	**-**	**-**	**623,747**
Bank						
Balance at 1 January 2018	-	-	-	180,640	277,928	458,568
- adoption of MFRS 9	76,084	69,776	205,568	(180,640)	(277,928)	(107,140)
Balance restated	76,084	69,776	205,568	-	-	351,428
Changes due to financial assets recognised in the opening balance that have:						
- Transferred to Stage 1	25,897	(22,456)	(3,441)	-	-	-
- Transferred to Stage 2	(5,352)	12,891	(7,539)	-	-	-
- Transferred to Stage 3	(329)	(5,057)	5,386	-	-	-
New financial assets originated or purchased	13,808	-	-	-	-	13,808
Net remeasurement due to changes in credit risk	(53,470)	13,274	106,697	-	-	66,501
Asset written-off	-	-	(127,122)	-	-	(127,122)
Others	(672)	-	11,270	-	-	10,598
Balance at 31 December 2018	**55,966**	**68,428**	**190,819**	**-**	**-**	**315,213**

The Group and the Bank measures the expected credit losses (ECL) using the three-stage approach, please refer to Note 4(l) Significant Accounting Policies for the details. The following section explains how significant changes in the gross carrying amount of loans, advances and financing during the year have contributed to the changes in the ECL allowances for the Group and the Bank under the expected credit loss model.

The total ECL allowances decreased by RM5.1 million and RM36.2 million for the Group and the Bank compared to the balance at the beginning of the year which was restated under MFRS 9. This net reduction was mainly contributed by accounts written off (RM240.3 million and RM127.1 million for the Group and the Bank) partially offset by remeasurement due to change in credit risk.

- 12-months ECL not credit impaired (Stage 1) – decreased by RM37.3 million and RM20.1 million for the Group and the Bank, primarily due to remeasurement due to change in credit risk based on the HSBC Group's model and partially offset by the new loans and loans migrated back to Stage 1 due to improved credit quality.

- Lifetime ECL not credit-impaired (Stage 2) – decreased by RM2.4 million and RM1.3 million for the Group and the Bank, primarily due to migration of loans back to Stage 1 as result of credit quality improvements.

- Lifetime ECL credit-impaired (Stage 3) – increased by RM34.6 million for the Group, primarily due to the increase of the restructured loans and partially offset by the written off of the impaired loan. For the Bank, Stage 3 ECL decreased by RM14.7 million, primarily due to written off of the impaired loan and partially offset by remeasurement due to change in credit risk based on the HSBC Group's model.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 ECL allowances movement (Cont'd)

(ii) Movements in ECL allowances for loan commitments

The following table shows reconciliation from the opening to the closing balance of the ECL allowance for loan commitments:

	Stage 1	Stage 2	Stage 3	
	12-month ECL not credit impaired RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Total RM'000
Group				
Balance at 1 January 2018	-	-	-	-
- adoption of MFRS 9	3,984	5,618	1,006	10,608
Balance restated	3,984	5,618	1,006	10,608
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	574	(574)	-	-
- Transferred to Stage 2	(223)	227	(4)	-
- Transferred to Stage 3	(2)	(2)	4	-
New financial assets originated or purchased	1,102	-	-	1,102
Net remeasurement due to changes in credit risk	(906)	(1,911)	(181)	(2,998)
Asset written-off	-	-	-	-
Others	(114)	-	-	(114)
Balance at 31 December 2018	**4,415**	**3,358**	**825**	**8,598**
Bank				
Balance at 1 January 2018	-	-	-	-
- adoption of MFRS 9	3,038	3,738	9	6,785
Balance restated	3,038	3,738	9	6,785
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	422	(422)	-	-
- Transferred to Stage 2	(167)	171	(4)	-
- Transferred to Stage 3	(1)	-	1	-
New financial assets originated or purchased	862	-	-	862
Net remeasurement due to changes in credit risk	(807)	(1,054)	(6)	(1,867)
Asset written-off	-	-	-	-
Others	(41)	-	-	(41)
Balance at 31 December 2018	**3,306**	**2,433**	**-**	**5,739**

Allowance for drawn amount and provisions for the undrawn commitments are not able to be split for retail portfolio, and in accordance to MFRS 7 Financial Instruments disclosure, the provisions for the loans, financing and other credit related commitments for retail portfolio are presented together with the allowance for the drawn loans, advances and financing.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Other Assets

	Group		Bank	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Settlements	**6,257**	45,317	**2,826**	45,317
Interest/profit receivable	**129,644**	135,795	**109,063**	132,378
Income receivable	**53,578**	34,886	**45,845**	27,255
Deposits and prepayments	**27,004**	21,120	**26,814**	20,786
Amount due from subsidiary company	**-**	-	**73,163**	169,489
Cash collateral [1]	**289,271**	-	**289,271**	-
Other receivables	**128,941**	94,382	**111,374**	77,173
	634,695	331,500	**658,356**	472,398

[1] Cash collateral was previously reported within Deposits and Placements with Banks and Other Financial Institutions, with 31 Dec 2017 balances amounted to RM91.7 million. On 1 January 2018, the Group and the Bank have changed the accounting policy whereby cash collateral has been reclassified to Other Assets. This reclassification is to better reflect the nature of these balances and to better align the presentation of similar balances by peers. Comparative data was not restated as the reclassification is not significant in the context of the overall materiality of the financial statements.

17 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.

18 Investments in Subsidiary Companies

	Group		Bank	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	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	*Principal activities*	*Percentage of equity held*	
		31 Dec 2018	31 Dec 2017
HSBC (Kuala Lumpur) Nominees Sdn Bhd	Nominees, trustees or agents	**100%**	100%
HSBC Nominees (Tempatan) Sdn Bhd	to receive securities for	**100%**	100%
HSBC Nominees (Asing) Sdn Bhd	safe custody and management	**100%**	100%
HSBC Amanah Malaysia Berhad	Islamic banking and related financial services	**100%**	100%

All income and expenditure arising from the activities of subsidiaries which are nominee companies were recognised in the Bank's results, in respect of which the right of recovery has been waived. Audit reports for all the subsidiaries' financial statements as at 31 December 2018 were not qualified. None of the subsidiaries hold shares in holding company and other related corporations.

19 Investment in a Joint Venture

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. As the joint arrangement is immaterial, no further disclosure is made in this financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

20 Property and equipment

	Group						
2018	***Land***	***Buildings***	***Office equipment, fixtures and fittings***	***Computer equipment***	***Motor vehicles***	***Work in progress***	***Total***
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cost or valuation							
Balance at 1 January	**186,870**	**124,500**	**249,552**	**117,620**	**3,114**	**14,577**	**696,233**
Additions	**-**	**558**	**6,079**	**11,976**	**633**	**102,326**	**121,572**
Disposals	**-**	**-**	**(11)**	**-**	**(688)**	**-**	**(699)**
Written off	**-**	**-**	**(8,763)**	**(1,243)**	**-**	**-**	**(10,006)**
Adjustments for revaluation	**690**	**(8,968)**	**-**	**-**	**-**	**-**	**(8,278)**
Balance at 31 December	**187,560**	**116,090**	**246,857**	**128,353**	**3,059**	**116,903**	**798,822**
Representing items at:							
Cost	**-**	**-**	**246,857**	**128,353**	**3,059**	**116,903**	**495,172**
Valuation - 2018	**187,560**	**116,090**	**-**	**-**	**-**	**-**	**303,650**
	187,560	**116,090**	**246,857**	**128,353**	**3,059**	**116,903**	**798,822**
Accumulated depreciation							
Balance at 1 January	**-**	**-**	**221,270**	**102,162**	**1,542**	**-**	**324,974**
Charge for the financial year	**1,257**	**3,530**	**9,416**	**6,826**	**554**	**-**	**21,583**
Disposals	**-**	**-**	**(11)**	**-**	**(688)**	**-**	**(699)**
Written off	**-**	**-**	**(8,740)**	**(1,239)**	**-**	**-**	**(9,979)**
Adjustments for revaluation	**(1,257)**	**(3,530)**	**-**	**-**	**-**	**-**	**(4,787)**
Balance at 31 December	**-**	**-**	**221,935**	**107,749**	**1,408**	**-**	**331,092**
Net book value at 31 December	**187,560**	**116,090**	**24,922**	**20,604**	**1,651**	**116,903**	**467,730**
Carrying amounts that would have been recognised if land and building were stated at cost	**7,288**	**51,727**	**24,922**	**20,604**	**1,651**	**116,903**	**223,095**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

20 Property and equipment (Cont'd)

	Group						
2017	*Land*	*Buildings*	*Office equipment, fixtures and fittings*	*Computer equipment*	*Motor vehicles*	*Work in progress*	*Total*
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost or valuation							
Balance at 1 January	186,920	124,460	250,163	121,144	3,220	651	686,558
Additions	-	591	6,081	4,478	465	13,926	25,541
Disposals	-	-	(15)	(126)	(571)	-	(712)
Written off	-	-	(6,677)	(7,876)	-	-	(14,553)
Adjustments for revaluation	(50)	(551)	-	-	-	-	(601)
Balance at 31 December	186,870	124,500	249,552	117,620	3,114	14,577	696,233
Representing items at:							
Cost	-	-	249,552	117,620	3,114	14,577	384,863
Valuation - 2017	186,870	124,500	-	-	-	-	311,370
	186,870	124,500	249,552	117,620	3,114	14,577	696,233
Accumulated depreciation							
Balance at 1 January	-	-	217,240	103,499	1,495	-	322,234
Charge for the financial year	1,218	3,417	10,665	6,600	517	-	22,417
Disposals	-	-	(15)	(74)	(470)	-	(559)
Written off	-	-	(6,620)	(7,863)	-	-	(14,483)
Adjustments for revaluation	(1,218)	(3,417)	-	-	-	-	(4,635)
Balance at 31 December	-	-	221,270	102,162	1,542	-	324,974
Net book value at 31 December	186,870	124,500	28,282	15,458	1,572	14,577	371,259
Carrying amounts that would have been recognised if land and building were stated at cost	7,357	54,061	28,282	15,458	1,572	14,577	121,307

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

20 Property and equipment (Cont'd)

	Bank						
2018	***Land***	***Buildings***	***Office equipment, fixtures and fittings***	***Computer equipment***	***Motor vehicles***	***Work in progress***	***Total***
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cost or valuation							
Balance at 1 January	**186,870**	**124,500**	**212,133**	**99,218**	**2,815**	**14,577**	**640,113**
Additions	**-**	**558**	**5,318**	**10,570**	**633**	**100,820**	**117,899**
Disposals	**-**	**-**	**(11)**	**-**	**(688)**	**-**	**(699)**
Written off	**-**	**-**	**(6,715)**	**(1,141)**	**-**	**-**	**(7,856)**
Adjustments for revaluation	**690**	**(8,968)**	**-**	**-**	**-**	**-**	**(8,278)**
Balance at 31 December	**187,560**	**116,090**	**210,725**	**108,647**	**2,760**	**115,397**	**741,179**
Representing items at:							
Cost	**-**	**-**	**210,725**	**108,647**	**2,760**	**115,397**	**437,529**
Valuation - 2018	**187,560**	**116,090**	**-**	**-**	**-**	**-**	**303,650**
	187,560	**116,090**	**210,725**	**108,647**	**2,760**	**115,397**	**741,179**
Accumulated depreciation							
Balance at 1 January	**-**	**-**	**187,227**	**85,785**	**1,362**	**-**	**274,374**
Charge for the financial year	**1,257**	**3,530**	**8,388**	**5,590**	**494**	**-**	**19,259**
Disposals	**-**	**-**	**(11)**	**-**	**(688)**	**-**	**(699)**
Written off	**-**	**-**	**(6,692)**	**(1,138)**	**-**	**-**	**(7,830)**
Adjustments for revaluation	**(1,257)**	**(3,530)**	**-**	**-**	**-**	**-**	**(4,787)**
Balance at 31 December	**-**	**-**	**188,912**	**90,237**	**1,168**	**-**	**280,317**
Net book value at 31 December	**187,560**	**116,090**	**21,813**	**18,410**	**1,592**	**115,397**	**460,862**
Carrying amounts that would have been recognised if land and building were stated at cost	**7,288**	**51,727**	**21,813**	**18,410**	**1,592**	**115,397**	**216,227**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

20 Property and equipment (Cont'd)

	Bank						
2017	*Land*	*Buildings*	*Office equipment, fixtures and fittings*	*Computer equipment*	*Motor vehicles*	*Work in progress*	*Total*
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost or valuation							
Balance at 1 January	186,920	124,460	213,119	102,865	2,921	651	630,936
Additions	-	591	4,342	3,916	465	13,926	23,240
Disposals	-	-	(15)	(126)	(571)	-	(712)
Written off	-	-	(5,313)	(7,437)	-	-	(12,750)
Adjustments for revaluation	(50)	(551)	-	-	-	-	(601)
Balance at 31 December	186,870	124,500	212,133	99,218	2,815	14,577	640,113
Representing items at:							
Cost	-	-	212,133	99,218	2,815	14,577	328,743
Valuation - 2017	186,870	124,500	-	-	-	-	311,370
	186,870	124,500	212,133	99,218	2,815	14,577	640,113
Accumulated depreciation							
Balance at 1 January	-	-	184,150	88,324	1,375	-	273,849
Charge for the financial year	1,218	3,417	8,351	4,959	457	-	18,402
Disposals	-	-	(15)	(74)	(470)	-	(559)
Written off	-	-	(5,259)	(7,424)	-	-	(12,683)
Adjustments for revaluation	(1,218)	(3,417)	-	-	-	-	(4,635)
Balance at 31 December	-	-	187,227	85,785	1,362	-	274,374
Net book value at 31 December	186,870	124,500	24,906	13,433	1,453	14,577	365,739
Carrying amounts that would have been recognised if land and building were stated at cost	7,357	54,061	24,906	13,433	1,453	14,577	115,787

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

21 Intangible Assets

Computer software	***Group***	***Bank***
2018	**RM'000**	**RM'000**
Cost		
Balance at 1 January	**266,077**	**261,024**
Additions	**12,676**	**12,676**
Written off	**(62)**	**(62)**
Balance at 31 December	**278,691**	**273,638**
Accumulated amortisation		
Balance at 1 January	**214,181**	**209,128**
Charge for the financial year	**19,505**	**19,505**
Written off	**(62)**	**(62)**
At 31 December	**233,624**	**228,571**
Accumulated impairment loss		
Balance at 1 January	**5,323**	**5,323**
Charge for the financial year	**53**	**53**
At 31 December	**5,376**	**5,376**
Net book value at 31 December	**39,691**	**39,691**
2017	RM'000	RM'000
Cost		
Balance at 1 January	263,167	258,114
Additions	10,803	10,803
Written off	(7,893)	(7,893)
Balance at 31 December	266,077	261,024
Accumulated amortisation		
Balance at 1 January	199,269	194,216
Charge for the financial year	22,187	22,187
Written off	(7,275)	(7,275)
At 31 December	214,181	209,128
Accumulated impairment loss		
Balance at 1 January	5,167	5,167
Charge for the financial year	156	156
Balance at 1 January/31 December	5,323	5,323
Net book value at 31 December	46,573	46,573

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

22 Deferred Tax Assets

The amounts, prior to offsetting are summarised as follows:

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Deferred tax assets	**287,228**	188,532	**269,552**	178,864
Deferred tax liabilities	**(78,333)**	(85,427)	**(78,020)**	(84,396)
	208,895	103,105	**191,532**	94,468

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

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Deferred tax assets:				
- settled more than 12 months	**20,341**	1,480	**14,188**	1,196
- settled within 12 months	**266,887**	187,052	**255,364**	177,668
Deferred tax liabilities:				
- settled more than 12 months	**(60,428)**	(67,857)	**(60,325)**	(67,548)
- settled within 12 months	**(17,905)**	(17,570)	**(17,695)**	(16,848)
	208,895	103,105	**191,532**	94,468

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

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Property and equipment				
- Capital allowances	**3,985**	(9,966)	**4,195**	(9,647)
- Revaluation	**(38,570)**	(33,229)	**(38,570)**	(33,229)
FVOCI reserve	**(39,553)**	-	**(39,450)**	-
Available-for-sale reserve	**-**	(42,232)	**-**	(41,520)
Own credit reserve	**2,167**	-	**1,224**	-
Provision for accrued expenses	**243,786**	162,091	**235,848**	155,011
Deferred income	**25,968**	26,233	**23,130**	23,853
Lease receivables	**218**	208	**-**	-
Loans, advances and financing	**10,894**	-	**5,155**	-
	208,895	103,105	**191,532**	94,468

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

22 Deferred Tax Assets (Cont'd)

Movement in temporary differences during the financial year

	Group								
	Balance at 1 Jan 2017	*Recognised in profit or loss*	*Recognised in other comprehensive income*	***Balance at 31 Dec 2017 / 1 Jan 2018***	***Adoption of MFRS 9***	***Balance at 01 Jan 18 Restated***	***Recognised in profit or loss***	***Recognised in other comprehensive income***	***Balance at 31 Dec 2018***
	RM'000	RM'000	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Available-for-sale reserves	2,067	-	(2,067)	**-**	**-**	**-**	**-**	**-**	**-**
Provision for accrued expenses	76,842	85,249	-	**162,091**	**-**	**162,091**	**81,695**	**-**	**243,786**
Property and equipment									
capital allowances	-	-	-	**-**	**-**	**-**	**4,195**	**-**	**4,195**
Loans, advances and financing	-	-	-	**-**	**-**	**-**	**10,894**	**-**	**10,894**
Deferred income	24,308	1,925	-	**26,233**	**-**	**26,233**	**(265)**	**-**	**25,968**
Lease receivables	66	142	-	**208**	**-**	**208**	**10**	**-**	**218**
Own credit reserve	-	-	-	**-**	**(64)**	**(64)**	**-**	**2,231**	**2,167**
Other temporary differences	-	-	-	**-**	**-**	**-**	**-**	**-**	**-**
Deferred Tax Assets	103,283	87,316	(2,067)	**188,532**	**(64)**	**188,468**	**96,529**	**2,231**	**287,228**
Property and equipment									
capital allowances	(14,323)	4,357	-	**(9,966)**	**-**	**(9,966)**	**9,756**	**-**	**(210)**
revaluation	(33,006)	741	(964)	**(33,229)**	**-**	**(33,229)**	**769**	**(6,111)**	**(38,571)**
Own credit reserve	-	-	(655)	**(655)**	**(150)**	**(805)**	**583**	**222**	**-**
FVOCI reserve	-	-	-	**-**	**(41,577)**	**(41,577)**	**-**	**2,025**	**(39,552)**
Available-for-sale reserve	(27,696)	-	(13,881)	**(41,577)**	**41,577**	**-**	**-**	**-**	**-**
Deferred Tax Liabilities	(75,025)	5,098	(15,500)	**(85,427)**	**(150)**	**(85,577)**	**11,108**	**(3,864)**	**(78,333)**
Net Deferred Tax Assets	28,258	92,414	(17,567)	**103,105**	**(214)**	**102,891**	**107,637**	**(1,633)**	**208,895**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

22 Deferred Tax Assets (Cont'd)

Movement in temporary differences during the financial year (Cont'd)

	Bank								
	Balance at 1 Jan 2017	*Recognised in profit or loss*	*Recognised in other comprehensive income*	***Balance at 31 Dec 2017 / 1 Jan 2018***	***Adoption of MFRS 9***	***Balance at 01 Jan 18 Restated***	***Recognised in profit or loss***	***Recognised in other comprehensive income***	***Balance at 31 Dec 2018***
	RM'000	RM'000	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Provision for accrued expenses	70,380	84,631	-	**155,011**	**-**	**155,011**	**80,837**	**-**	**235,848**
Property and equipment									
capital allowances	-	-	-	**-**	**-**	**-**	**4,195**	**-**	**4,195**
Loans, advances and financing	-	-	-	**-**	**-**	**-**	**5,155**	**-**	**5,155**
Deferred income	21,859	1,994	-	**23,853**	**-**	**23,853**	**(723)**	**-**	**23,130**
Own credit reserve	-	-	-	**-**	**(64)**	**(64)**	**-**	**1,288**	**1,224**
Deferred Tax Assets	92,239	86,625	-	**178,864**	**(64)**	**178,800**	**89,464**	**1,288**	**269,552**
Property and equipment									
capital allowances	(13,674)	4,027	-	**(9,647)**	**-**	**(9,647)**	**9,647**	**-**	**-**
revaluation	(33,006)	741	(964)	**(33,229)**	**-**	**(33,229)**	**769**	**(6,111)**	**(38,571)**
FVOCI reserve	-	-	-	**-**	**(41,520)**	**(41,520)**	**-**	**2,071**	**(39,449)**
Available-for-sale reserve	(27,696)	-	(13,824)	**(41,520)**	**41,520**	**-**	**-**	**-**	**-**
Deferred Tax Liabilities	(74,376)	4,768	(14,788)	**(84,396)**	**-**	**(84,396)**	**10,416**	**(4,040)**	**(78,020)**
Net Deferred Tax Assets	17,863	91,393	(14,788)	**94,468**	**(64)**	**94,404**	**99,880**	**(2,752)**	**191,532**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

23 Deposits from Customers

		Group		Bank	
(i)	**By type of deposit**	**31 Dec 2018**	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
		RM'000	RM'000	**RM'000**	RM'000
	At amortised cost				
	Demand deposits	**20,716,131**	20,264,702	**18,945,779**	18,150,556
	Savings deposits	**12,061,066**	12,846,713	**10,371,643**	11,202,685
	Fixed deposits	**24,369,956**	23,436,236	**16,385,175**	17,159,906
	Wholesale money market deposits	**-**	3,500	**-**	3,500
		57,147,153	56,551,151	**45,702,597**	46,516,647

The maturity structure of fixed deposits is as follows:

	Group		Bank	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Due within six months	**19,229,277**	18,261,293	**12,626,859**	13,363,838
More than six months to one year	**4,540,646**	4,849,544	**3,497,763**	3,610,173
More than one year to three years	**415,621**	244,641	**151,171**	134,572
More than three years to five years	**184,412**	80,758	**109,382**	51,323
	24,369,956	23,436,236	**16,385,175**	17,159,906

		Group		Bank	
(ii)	**By type of customer**	**31 Dec 2018**	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
		RM'000	RM'000	**RM'000**	RM'000
	Government and statutory bodies	**15,677**	33,830	**11,897**	28,207
	Business enterprises	**21,664,510**	20,625,420	**19,314,594**	18,404,900
	Individuals	**23,405,773**	24,074,294	**17,121,672**	18,662,800
	Others	**12,061,193**	11,817,607	**9,254,434**	9,420,740
		57,147,153	56,551,151	**45,702,597**	46,516,647

24 Deposits and Placements from Banks and Other Financial Institutions

	Group		Bank	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Licensed banks	**3,539**	231,646	**3,539**	231,619
Bank Negara Malaysia	**27,971**	28,507	**-**	1,950
Other financial institutions	**5,487,241**	5,093,456	**2,794,549**	4,199,198
	5,518,751	5,353,609	**2,798,088**	4,432,767

Cash collateral was previously reported within Deposits and Placements from Banks and Other Financial Institutions, with 31 Dec 2017 balances amounted to RM682.3 million. On 1 January 2018, the Group and the Bank have changed the accounting policy whereby cash collateral has been reclassified to Other Liabilities. This reclassification is to better reflect the nature of these balances and to better align the presentation of similar balances by peers. Comparative data was not restated as the reclassification is not significant in the context of the overall materiality of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

25 Structured Liabilities Designated at Fair Value through Profit or Loss

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Structured liabilities	**4,158,241**	-	**3,273,364**	-

Structured liabilities are measured at fair value over the life of the instruments. Structured liabilities are customer placements with embedded derivatives, of which both interest/profit paid and fair valuation on the structured liabilities are recorded in net income/(expense) from financial investments designated at fair value. On 1 January 2018, the Group and the Bank have changed the accounting policy and presentation from 'Trading Liabilities' in 'Other Liabilities' to 'Structured Liabilities Designated at Fair Value through Profit or Loss'. The Group and the Bank have designated these structured products as at fair value through profit or loss to align with the presentation of similar financial instruments by peers. Comparative of RM2,850 million (Group) and RM2,570 million (Bank) have not been restated as it is not significant in the context of the overall materiality of the financial statements.

26 Other Liabilities

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
At amortised cost				
Settlements	**31,095**	74,224	**31,095**	71,279
Interest/profit payable	**254,430**	221,250	**167,386**	160,602
Deferred income	**108,296**	110,228	**96,472**	99,512
Marginal deposit	**48,358**	70,610	**44,113**	57,518
Amount due to subsidiary company	**-**	-	**360**	988
Accrued expenses	**1,014,982**	687,383	**982,054**	658,339
Cash Collateral [1]	**255,078**	-	**255,078**	-
Other creditors	**668,260**	668,312	**610,165**	603,560
Provisions on loan and credit related commitments; and financial guarantees	**8,598**	-	**5,739**	-
	2,389,097	1,832,007	**2,192,462**	1,651,798
At fair value				
Structured liabilities [2]	**-**	2,850,034	**-**	2,570,059
	2,389,097	4,682,041	**2,192,462**	4,221,857

[1] Cash collateral was previously reported within Deposits and Placements from Banks and Other Financial Institutions, with 31 Dec 2017 balances amounted to RM682.3 million. On 1 January 2018, the Group and the Bank have changed the accounting policy whereby cash collateral has been reclassified to Other Liabilities. This reclassification is to better reflect the nature of these balances and to better align the presentation of similar balances by peers. Comparative data was not restated as the reclassification is not significant in the context of the overall materiality of the financial statements.

[2] On 1 January 2018, the Group and the Bank have changed the accounting policy and presentation from 'Trading Liabilities' in 'Other Liabilities' to 'Structured Liabilities Designated at Fair Value through Profit or Loss'. The Group and the Bank have designated these structured products as at fair value through profit or loss to align with the presentation of similar financial instruments by peers. Comparative of RM2,850 million and RM2,570 million for the Group and the Bank respectively have not been restated as it is not significant in the context of the overall materiality of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27 Multi-Currency Sukuk Programme

	Group	
	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Multi-Currency Sukuk Programme (MCSP)	**1,755,281**	1,252,829

HSBC Amanah Malaysia Berhad, a subsidiary of the Bank, issued the following series of 5-year Sukuk under its RM3 billion MCSP:

Issuance under MCSP	**Nominal Value (RM'000)**	**Issue Date**	**Maturity Date**	**Carrying Value (RM'000) 31 Dec 2018**	Carrying Value (RM'000) 31 Dec 2017
At fair value					
2nd series	500,000	16 Oct 2014	16 Oct 2019	**501,173**	501,201
3rd series	750,000	27 Mar 2015	27 Mar 2020	**751,993**	751,628
4th series	500,000	2 Oct 2018	2 Oct 2023	**502,115**	-
Total	1,750,000			**1,755,281**	1,252,829

Movement in MCSP

2018	**2nd series RM'000**	**3rd series RM'000**	**4th series RM'000**
Balance at 1 January	**501,201**	**751,628**	**-**
New issuance during the financial year	**-**	**-**	**500,000**
Change in fair value other than from own credit risk	**(1,811)**	**445**	**1,054**
Change in fair value from own credit risk	**1,783**	**(80)**	**1,061**
Balance at 31 December	**501,173**	**751,993**	**502,115**

2017	2nd series RM'000	3rd series RM'000	4th series RM'000
Balance at 1 January	502,835	753,166	-
Change in fair value other than from own credit risk	(504)	64	-
Change in fair value from own credit risk	(1,130)	(1,602)	-
Balance at 31 December	501,201	751,628	-

	Group	
	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
The cumulative change in fair value due to changes in own credit risk	**2,764**	(2,732)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

28 Subordinated Liabilities

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Subordinated Liabilities	**1,095,987**	1,083,903	**1,095,987**	1,083,903
(i) Subordinated liabilities, at par				
- Second tranche issued on 2 November 2007 [1]	**500,000**	500,000	**500,000**	500,000
Fair value changes arising from fair value hedge	**-**	305	**-**	305
	500,000	500,305	**500,000**	500,305

[1] 5.05% coupon rate for RM500 million due 2027 callable with a 100 basis point step up coupon in 2022

The unsecured 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.

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
(ii) Subordinated term loan				
- First tranche issued on 25 June 2014	**321,395**	314,714	**321,395**	314,714
- Second tranche issued on 30 June 2015	**274,592**	268,884	**274,592**	268,884
	595,987	583,598	**595,987**	583,598

The subordinated term loans comprised two tranches of Basel III compliant Tier 2 subordinated loans of USD equivalent of RM250 million each from the Bank's immediate holding company, HBAP. The tenor for both the subordinated term loans is 10 years from the utilisation date with interest payable quarterly in arrears.

The subordinated term loans constitute direct, unsecured and subordinated obligations of the Bank. The Bank further invested a similar amount into HBMS.

29 Share Capital

Group and Bank	**31 Dec 2018**		31 Dec 2017	
	Number of Ordinary Shares ('000)	**RM'000**	Number of Ordinary Shares ('000)	RM'000
At 1 January - ordinary shares of RM0.50 each	**229,000**	**1,045,875**	229,000	114,500
Transition to no par value regime on 31 January 2017 under the Companies Act 2016	**-**	**-**	-	931,375
Ordinary Shares Issued and Fully Paid	**229,000**	**1,045,875**	229,000	1,045,875

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

30 Reserves

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Revaluation reserve	**204,890**	216,937	**204,890**	216,937
Available-for-sale reserve	**-**	131,657	**-**	131,478
FVOCI reserve	**125,969**	-	**125,490**	-
Own credit reserve	**(6,863)**	230	**(3,876)**	-
Capital contribution reserve[1]	**99,586**	94,583	**99,087**	94,175
Regulatory reserve[2]	**559,200**	284,000	**468,100**	250,000
Retained profits	**8,148,816**	7,562,878	**7,075,642**	6,641,367
	9,131,598	8,290,285	**7,969,333**	7,333,957

[1] The capital contribution reserve is maintained to record the amount relating to share options granted to employees of the Group and the Bank directly by HSBC Holding Plc.

[2] The regulatory reserve is maintained in compliance with paragraph 10.5 of BNM's policy document on Financial Reporting and Financial Reporting for Islamic Banking Institutions issued on 2 February 2018, to maintain, in aggregate, loss allowance for non-credit-impaired exposures and regulatory reserve of no less than 1.0% of total credit exposures, net of loss allowance for credit-impaired exposures.

The regulatory reserve is debited against retained profits.

31 Net Interest Income

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Interest income				
Loans and advances				
- Interest income other than from impaired loans	**1,767,638**	1,598,159	**1,767,638**	1,598,159
- Interest income recognised from impaired loans	**50,289**	38,392	**50,289**	38,392
Money at call and deposit placements with financial institutions	**294,939**	270,623	**344,930**	348,795
Financial investments at FVOCI	**267,565**	348,852	**267,565**	348,852
	2,380,431	2,256,026	**2,430,422**	2,334,198
Interest expense				
Deposits and placements of banks and other financial institutions	**(39,344)**	(50,140)	**(39,344)**	(50,140)
Deposits from customers	**(667,201)**	(694,313)	**(667,201)**	(694,313)
Subordinated liabilities	**(50,130)**	(53,885)	**(50,130)**	(53,885)
Others	**(10,854)**	(11,115)	**(10,854)**	(11,115)
	(767,529)	(809,453)	**(767,529)**	(809,453)
Net interest income	**1,612,902**	1,446,573	**1,662,893**	1,524,745

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Net Fee and Commission Income

	Group		Bank	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Fee and commission income				
Credit cards	**145,808**	152,161	**145,808**	152,161
Service charges	**123,959**	126,915	**123,959**	126,915
Credit facilities	**59,917**	56,895	**59,917**	56,895
Agency	**104,147**	104,658	**104,147**	104,658
Others	**31,152**	31,491	**31,152**	31,491
	464,983	472,120	**464,983**	472,120
Fee and commission expense				
Debit/credit cards	**(47,683)**	(65,331)	**(47,683)**	(65,331)
Interbank and clearing	**(1,377)**	(1,412)	**(1,377)**	(1,412)
Brokerage	**(1,987)**	(1,771)	**(1,987)**	(1,771)
Cash management	**(1,790)**	(2,930)	**(1,790)**	(2,930)
Others	**(13,235)**	(15,883)	**(13,235)**	(15,883)
	(66,072)	(87,327)	**(66,072)**	(87,327)
Net fee and commission income	**398,911**	384,793	**398,911**	384,793

33 Net Trading Income

	Group		Bank	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Realised gains on financial assets/liabilities at FVTPL and other financial instruments	**6,915**	34,496	**4,721**	32,869
Net interest income from financial assets at FVTPL	**86,853**	68,018	**86,853**	68,018
Net unrealised (losses)/gains on revaluation of financial assets at FVTPL	**(1,804)**	18,352	**(853)**	17,313
Net realised gains arising from dealing in foreign currency	**208,465**	931,988	**207,595**	932,459
Net unrealised gains/(losses) from dealing in foreign currency	**110,738**	(293,967)	**239,525**	(494,055)
Net realised (losses)/gains arising from dealing in derivatives	**(130,290)**	127,143	**(129,554)**	131,038
Net unrealised gains/(losses) on revaluation of derivatives	**182,243**	(118,673)	**170,208**	(123,501)
(Losses)/gains arising from fair value hedges	**(544)**	34	**(544)**	34
	462,576	767,391	**577,951**	564,175

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34 Income from Islamic Banking operations

For consolidation with the conventional banking operations, the income from Islamic Banking operations as shown in the face of the consolidated statements of profit or loss and other comprehensive income, consists of the following items:

	Group	
	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Income derived from investment of depositor funds and others [1]	**823,353**	711,551
Income derived from investment of shareholders funds [1]	**147,435**	146,439
Total income before allowance for impairment losses on financing and advances	**970,788**	857,990
Income attributable to the depositors	**(440,676)**	(344,360)
	530,112	513,630
Elimination of intercompany income and expenses	**162,966**	(127,805)
Income from Islamic Banking operations reported in the statement of profit or loss of the Group	**693,078**	385,825

[1] Included in the following funds are net losses on financial instruments designated at fair value through profit or loss for the year ended 31 December:

Income derived from investment of depositors' funds and others	**(14,143)**	-
Income derived from investment of shareholder's funds	**(1,938)**	(761)

35 Other Operating Income

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Gain on disposal of financial investments at FVOCI	**11,755**	4,123	**11,755**	4,123
Dividend income from financial investments designated at FVOCI				
- Unquoted in Malaysia	**1,363**	2,319	**1,363**	2,319
which all related to investment held as at reporting date				
Dividend income from subsidiary	**-**	-	**10,000**	-
Rental income	**8,362**	7,797	**8,362**	7,797
Net gain on disposal of property and equipment	**134**	73	**134**	73
Net upwards revaluation on property	**8**	17	**8**	17
Income recharges from subsidiary	**-**	-	**126,164**	122,260
Other operating income	**20,184**	22,148	**20,184**	22,148
	41,806	36,477	**177,970**	158,737

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36 Impairment Allowance/Provisions

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
New and increased allowance (net of releases)	**189,770**	313,645	**79,381**	118,234
Recoveries	**(108,245)**	(89,204)	**(67,262)**	(55,238)
Written off	**425**	18,623	**387**	11,465
Total charge to the statements of profit or loss	**81,950**	243,064	**12,506**	74,461

Breakdown of the impairment allowance/provisions by financial instruments type.

(i) Loan, advances and financing

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
New and increased allowance (net of releases)	**191,563**	313,645	**80,309**	118,234
Recoveries	**(108,245)**	(89,204)	**(67,262)**	(55,238)
Written off	**425**	18,623	**387**	11,465
Total charge to the statements of profit or loss	**83,743**	243,064	**13,434**	74,461

(ii) Deposits and placements with banks and other financial institutions

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
New and increased allowance (net of releases)	**(33)**	-	**(34)**	-
Total charge to the statements of profit or loss	**(33)**	-	**(34)**	-

(iii) Debt securities - FVOCI

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
New and increased allowance (net of releases)	**136**	-	**111**	-
Total charge to the statements of profit or loss	**136**	-	**111**	-

(iv) Loan commitments

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
New and increased allowance (net of releases)	**(1,896)**	-	**(1,005)**	-
Total charge to the statements of profit or loss	**(1,896)**	-	**(1,005)**	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Other Operating Expenses

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Personnel expenses	**754,442**	732,852	**705,480**	686,805
Promotion and marketing related expenses	**70,060**	66,964	**54,359**	55,968
Establishment related expenses	**141,115**	140,897	**123,799**	122,386
General administrative expenses	**162,654**	185,820	**129,560**	150,471
Related company charges	**380,284**	411,242	**374,822**	408,452
	1,508,555	1,537,775	**1,388,020**	1,424,082
Personnel expenses				
Salaries, allowances and bonuses	**582,743**	550,791	**543,911**	514,599
Employees Provident Fund contributions	**97,970**	92,158	**91,082**	85,873
Share based payment	**11,390**	14,333	**11,203**	14,226
Others	**62,339**	75,570	**59,284**	72,107
	754,442	732,852	**705,480**	686,805
Promotion and marketing related expenses	**70,060**	66,964	**54,359**	55,968
Establishment related expenses				
Depreciation of property and equipment	**21,583**	22,417	**19,259**	18,402
Amortisation of intangible assets	**19,505**	22,187	**19,505**	22,187
Intangible assets written off	**-**	618	**-**	618
Impairment of intangible assets	**53**	156	**53**	156
Information technology costs	**19,269**	17,769	**16,286**	15,279
Hire of equipment	**9,359**	8,184	**9,359**	8,183
Rental of premises	**37,335**	36,192	**29,184**	28,561
Property and equipment written off	**27**	70	**26**	67
General repairs and maintenance	**12,146**	9,112	**11,013**	9,112
Utilities	**14,328**	15,485	**12,320**	13,405
Others	**7,510**	8,707	**6,794**	6,416
	141,115	140,897	**123,799**	122,386
General administrative expenses				
Auditors' remuneration				
Statutory audit fees	**692**	555	**536**	429
Regulatory related fees				
- current year	**582**	585	**372**	427
- under provision of prior year	**-**	133	**-**	133
Non-audit fees	**55**	20	**47**	12
Professional fees	**11,484**	11,184	**9,665**	9,303
Communication	**17,954**	21,091	**16,457**	19,219
Others	**131,887**	152,252	**102,483**	120,948
	162,654	185,820	**129,560**	150,471

Included in professional fees are fees paid to the Shariah Committee members of HBMS:

	Group	
	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Shariah Committee members	**410**	411

37 Other Operating Expenses (Cont'd)

	Group		*Bank*	
	31 Dec 2018 RM'000	31 Dec 2017 RM'000	**31 Dec 2018 RM'000**	31 Dec 2017 RM'000
Related company charges	**380,284**	411,242	**374,822**	408,452
Of which by:				
Type of service				
- Information technology related cost	**157,641**	162,074	**157,641**	162,068
- Non information technology related cost	**222,643**	249,168	**217,181**	246,384
Countries				
- Hong Kong	**237,592**	254,989	**237,592**	254,989
- United Kingdom	**81,490**	92,372	**80,726**	92,264
- Malaysia	**58,099**	60,147	**53,401**	57,465
- Others	**3,103**	3,734	**3,103**	3,734

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 Tax expense

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Malaysian income tax				
- Current year	**467,928**	397,167	**416,287**	374,485
- Prior years	**(10,444)**	(6,344)	**(15,429)**	(4,616)
Total current tax recognised in profit or loss	**457,484**	390,823	**400,858**	369,869
Deferred tax				
Origination and reversal of temporary differences				
- Current year	**(107,637)**	(92,414)	**(99,880)**	(91,393)
Total Tax expense	**349,847**	298,409	**300,978**	278,476

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

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Profit before income tax	**1,528,732**	1,240,220	**1,327,163**	1,133,907
Income tax using Malaysian tax rate	**369,296**	297,653	**318,519**	272,138
Non-deductible expenses	**1,490**	14,357	**643**	11,511
Tax exempt income	**(10,495)**	(7,257)	**(2,755)**	(557)
Overprovision in respect of prior years	**(10,444)**	(6,344)	**(15,429)**	(4,616)
Tax expense	**349,847**	298,409	**300,978**	278,476

39 Earnings per Share

The earnings per ordinary share have been calculated based on profit for the financial year and 229,000,000 (2017: 229,000,000) ordinary shares in issue during the financial year.

40 Significant Related Party Transactions and Balances

For the purpose of these financial statements, parties are considered to be related to the Group if :

i. 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

ii. 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:

i. the Bank's immediate holding bank and ultimate holding company (hereinafter collectively referred to as parent);

ii. the Bank's subsidiaries;

iii. associated companies of the Bank's ultimate holding company;

iv. 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 (including close family members). Transactions, arrangements and agreements are entered into by the Group and the Bank with companies that may be controlled/jointly controlled by the Key Management Personnel of the Group and the Bank and their close family members.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 Significant Related Party Transactions and Balances (Cont'd)

(a) The significant transactions and outstanding balances of the Group and the Bank with its related parties are as follows:

	Group					
	2018			2017		
	Parent	***Other related companies***	***Key management personnel***	*Parent*	*Other related companies*	*Key management personnel*
	RM'000	**RM'000**	**RM'000**	RM'000	RM'000	RM'000
Income						
Interest/finance income on deposits and placements with banks and other financial institutions	**1,573**	**147**	**-**	904	199	-
Interest/finance income on loans, advances and financing from customers	**-**	**-**	**327**	-	-	392
Fees and commission	**5,061**	**28,492**	**-**	5,117	33,057	-
Other income	**5,333**	**13,087**	**-**	7,642	13,089	-
Net trading income/(expenses)	**(475,637)**	**35,176**	**-**	503,520	(96,222)	-
	(463,670)	**76,902**	**327**	517,183	(49,877)	392
Expenditure						
Interest/finance expense on deposits and placements from banks and other financial institutions	**87,984**	**7,956**	**-**	48,429	11,669	-
Interest/finance expense on deposits from customers	**-**	**-**	**767**	-	-	619
Fees and commission	**2,137**	**6,424**	**-**	5,153	6,077	-
Operating expenses	**237,592**	**142,692**	**-**	254,990	156,252	-
	327,713	**157,072**	**767**	308,572	173,998	619
Amount due from						
Deposits and placements with banks and other financial institutions	**106,802**	**209,053**	**-**	84,800	305,224	-
Loans, advances and financing	**-**	**-**	**7,453**	-	-	7,303
Derivative financial assets	**164,898**	**212,285**	**-**	585,539	267,477	-
Other assets	**250,989**	**9,098**	**-**	1,558	30,297	-
	522,689	**430,436**	**7,453**	671,897	602,998	7,303
Amount due to						
Deposit and placements from banks and other financial institutions	**3,348,228**	**1,011,079**	**-**	3,336,839	1,513,874	-
Deposit from customers	**-**	**-**	**34,958**	-	-	32,822
Derivative financial liabilities	**317,368**	**152,131**	**-**	170,920	207,596	-
Other liabilities	**503,482**	**259,986**	**-**	255,238	160,554	-
	4,169,078	**1,423,196**	**34,958**	3,762,997	1,882,024	32,822

All transactions of the Group and Bank and its related parties are made in the ordinary course of business.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 Significant Related Party Transactions and Balances (Cont'd)

(a) The significant transactions and outstanding balances of the Group and the Bank with its related parties are as follows (Cont'd):

	Bank			
	2018			
	Parent	***Subsidiary bank***	***Other related companies***	***Key management personnel***
	RM'000	**RM'000**	**RM'000**	**RM'000**
Income				
Interest/finance income on deposits and placements with Banks and other financial institutions	**1,573**	**49,991**	**147**	**-**
Interest/finance income on loans, advances and financing from customers	**-**	**-**	**-**	**315**
Fees and commission	**5,058**	**-**	**23,215**	**-**
Other income	**5,333**	**126,184**	**13,065**	**-**
Net trading income/(expenses)	**(475,637)**	**115,375**	**59,214**	**-**
	(463,673)	**291,550**	**95,641**	**315**
Expenditure				
Interest/finance expense on deposits and placements from Banks and other financial institutions	**50,142**	**-**	**4,304**	**-**
Interest/finance expense on deposits from customers	**-**	**-**	**-**	**767**
Fees and commission	**2,123**	**-**	**6,118**	**-**
Operating expenses	**237,592**	**2,400**	**134,830**	**-**
	289,857	**2,400**	**145,252**	**767**
Amount due from				
Deposits and placements with banks and other financial institutions	**104,381**	**1,175,288**	**147,915**	**-**
Loans, advances and financing	**-**	**-**	**-**	**7,300**
Derivative financial assets	**164,898**	**207,763**	**212,285**	**-**
Other assets	**250,989**	**73,965**	**9,098**	**-**
	520,268	**1,457,016**	**369,298**	**7,300**
Amount due to				
Deposit and placements from banks and other financial institutions	**1,735,699**	**-**	**697,516**	**-**
Deposit from customers	**-**	**-**	**-**	**34,911**
Derivative financial liabilities	**317,368**	**37,844**	**152,131**	**-**
Other liabilities	**500,632**	**360**	**256,939**	**-**
	2,553,699	**38,204**	**1,106,586**	**34,911**

All transactions of the Group and Bank and its related parties are made in the ordinary course of business.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 Significant Related Party Transactions and Balances (Cont'd)

(a) The significant transactions and outstanding balances of the Group and the Bank with its related parties are as follows (Cont'd):

	Bank			
	2017			
	Parent RM'000	*Subsidiary bank* RM'000	*Other related companies* RM'000	*Key management personnel* RM'000
Income				
Interest/finance income on deposits and placements with Banks and other financial institutions	904	78,172	199	-
Interest/finance income on deposits from customers	-	-	-	382
Fees and commission	5,117	-	26,857	-
Other income	7,642	122,260	13,080	-
Net trading income/(expenses)	503,520	(203,216)	(90,385)	-
	517,183	(2,784)	(50,249)	382
Expenditure				
Interest/finance expense on deposits and placements from Banks and other financial institutions	48,429	-	3,000	-
Interest/finance expense on deposits from customers	-	-	-	619
Fees and commission	5,153	-	5,631	-
Operating expenses	254,990	2,761	150,701	-
	308,572	2,761	159,332	619
Amount due from				
Deposits and placements with banks and other financial institutions	84,800	3,024,695	194,135	-
Loans, advances and financing	-	-	-	7,179
Derivative financial assets	585,539	166,830	267,477	-
Other assets	1,558	183,269	29,371	-
	671,897	3,374,794	490,983	7,179
Amount due to				
Deposit and placements from banks and other financial institutions	3,336,839	-	569,510	-
Deposit from customers	-	-	-	32,722
Derivative financial liabilities	170,920	111,422	207,596	-
Other liabilities	255,238	988	157,301	-
	3,762,997	112,410	934,407	32,722

All transactions of the Group and Bank and its related parties are made in the ordinary course of business.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 Significant Related Party Transactions and Balances (Cont'd)

(b) Key management personnel compensation

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Directors of the Bank and its subsidiaries:				
- Fees	**1,356**	1,177	**688**	664
- Remuneration	**8,203**	2,973	**8,203**	2,973
- Other short term employee benefits (including estimated monetary value of benefits-in-kind)	**2,208**	5,815	**2,208**	5,815
Total short-term employee benefits	**11,767**	9,965	**11,099**	9,452
- Share-based payments	**8,247**	5,008	**8,247**	5,008
Total Directors' Remuneration	**20,014**	14,973	**19,346**	14,460

During the financial years ending 31 December 2018 and 31 December 2017, there were no such compensation incurred for the following:
- Professional fees paid to Directors or any firms of which the Directors are members for services rendered.
- Amount paid to or receivable by any third party for services provided by Directors.
- Indemnity given or insurance effected for any Director.

Other key management personnel:				
- Short-term employee benefits	**27,242**	23,894	**24,995**	22,381
- Share-based payments	**4,221**	4,404	**4,221**	4,404
	31,463	28,298	**29,216**	26,785
Total key management personnel compensation	**51,477**	43,271	**48,562**	41,245

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 Significant Related Party Transactions and Balances (Cont'd)

(b) Key management personnel compensation (Cont'd)

i) Directors/CEO' Remuneration

The remuneration of the members of the Board of Directors/CEO 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:

2018

Group (RM'000)	Salaries and bonuses	Other short term employee benefits	Share-based payment	Benefits-in kind	Fees	Total
Executive Directors of the Bank						
Mukhtar Malik Hussain [1]	**5,889**	**1,568**	**8,247**	**46**	**-**	**15,750**
Stuart Paterson Milne [2]	**2,314**	**469**	**-**	**125**	**-**	**2,908**
Non Executive Directors of the Bank and subsidiary						
Adil Ahmad	**-**	**-**	**-**	**-**	**117**	**117**
Albert Quah Chei Jin	**-**	**-**	**-**	**-**	**119**	**119**
Choo Yoo Kwan @ Choo Yee Kwan	**-**	**-**	**-**	**-**	**169**	**169**
Ho Chai Huey [3]	**-**	**-**	**-**	**-**	**94**	**94**
Datuk Kamaruddin Taib [4]	**-**	**-**	**-**	**-**	**142**	**142**
Lee Choo Hock	**-**	**-**	**-**	**-**	**271**	**271**
Dr. Mohamed Ashraf bin Mohamed Iqbal [5]	**-**	**-**	**-**	**-**	**77**	**77**
Tan Kar Leng @ Chen Kar Leng	**-**	**-**	**-**	**-**	**151**	**151**
Tan Sri Dato' Tan Boon Seng @ Krishnan	**-**	**-**	**-**	**-**	**216**	**216**
	8,203	**2,037**	**8,247**	**171**	**1,356**	**20,014**
CEO of the subsidiary						
Arsalaan Ahmed	**1,688**	**534**	**-**	**25**	**-**	**2,247**

[1] Resigned and redesignated on 24 April 2018
[2] Appointed on 24 May 2018
[3] Appointed on 2 January 2018
[4] Appointed on 2 January 2018
[5] Resigned on 31 October 2018

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 Significant Related Party Transactions and Balances (Cont'd)

(b) Key management personnel compensation (Cont'd)

i) Directors/CEO' Remuneration (Cont'd)

2017

Group (RM'000)	Salaries and bonuses	Other short term employee benefits	Share-based payment	Benefits-in kind	Fees	Total
Executive Directors of the Bank						
Mukhtar Malik Hussain (CEO)	4,798	3,612	5,008	378	-	13,796
Non Executive Directors of the Bank and subsidiary						
Adil Ahmad	-	-	-	-	117	117
Albert Quah Chei Jin	-	-	-	-	118	118
Azlan bin Abdullah [2]	-	-	-	-	36	36
Choo Yoo Kwan @ Choo Yee Kwan	-	-	-	-	164	164
Lee Choo Hock	-	-	-	-	268	268
Dr. Mohamed Ashraf bin Mohamed Iqbal [1]	-	-	-	-	123	123
Tan Kar Leng @ Chen Kar Leng	-	-	-	-	147	147
Tan Sri Dato' Tan Boon Seng @ Krishnan	-	-	-	-	204	204
	4,798	3,612	5,008	378	1,177	14,973
CEO of the subsidiary						
Arsalaan Ahmed	1,061	427	-	25	-	1,513

[1] Reappointed and redesignated on 6 August 2017

[2] Retired on 8 May 2017

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 Significant Related Party Transactions and Balances (Cont'd)

(b) Key management personnel compensation (Cont'd)

i) Directors/CEO' Remuneration (Cont'd)

2018

Bank (RM'000)	**Salaries and bonuses**	**Other short term employee benefits**	**Share-based payment**	**Benefits-in kind**	**Fees**	**Total**
Non-Independent Exceutive Directors						
Mukhtar Malik Hussain [1]	**5,889**	**1,568**	**8,247**	**46**	**-**	**15,750**
Stuart Paterson Milne [2]	**2,314**	**469**	**-**	**125**	**-**	**2,908**
Independent Non-Executive Directors						
Choo Yoo Kwan @ Choo Yee Kwan	**-**	**-**	**-**	**-**	**169**	**169**
Lee Choo Hock	**-**	**-**	**-**	**-**	**152**	**152**
Tan Kar Leng @ Chen Kar Leng	**-**	**-**	**-**	**-**	**151**	**151**
Tan Sri Dato' Tan Boon Seng @ Krishnan	**-**	**-**	**-**	**-**	**216**	**216**
	8,203	**2,037**	**8,247**	**171**	**688**	**19,346**

[1] Resigned and redesignated on 24 April 2018
[2] Appointed on 24 May 2018

2017

Bank (RM'000)	Salaries and bonuses	Other short term employee benefits	Share-based payment	Benefits-in kind	Fees	Total
Non-Independent Exceutive Director						
Mukhtar Malik Hussain (CEO)	4,798	3,612	5,008	378	-	13,796
Independent Non-Executive Directors						
Choo Yoo Kwan @ Choo Yee Kwan	-	-	-	-	164	164
Lee Choo Hock	-	-	-	-	149	149
Tan Kar Leng @ Chen Kar Leng	-	-	-	-	147	147
Tan Sri Dato' Tan Boon Seng @ Krishnan	-	-	-	-	204	204
	4,798	3,612	5,008	378	664	14,460

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 Significant Related Party Transactions and Balances (Cont'd)

(b) Key management personnel compensation (Cont'd)

ii) Total value of remuneration awards for the financial year

Group

	31 Dec 2018		31 Dec 2017	
	Unrestricted RM'000	**Deferred RM'000**	Unrestricted RM'000	Deferred RM'000
Fixed remuneration				
Cash	**16,757**	**-**	17,620	-
Shares and share-linked instruments	**-**	-	-	-
	16,757	**-**	17,620	**-**
Variable remuneration				
Cash	**6,873**	**1,803**	8,106	3,215
Shares and share-linked instruments	**2,130**	**2,781**	3,229	4,305
	9,003	**4,584**	11,335	7,520
	25,760	**4,584**	28,955	7,520

Number of officers having received a variable remuneration during the financial year: 15 (2017:13)

	31 Dec 2018		31 Dec 2017	
	Number	**Amount RM'000**	Number	Amount RM'000
Outstanding deferred remuneration				
Cash	**7**	**25,654**	5	7,113
Shares and share-linked instruments	**13**	**10,021**	11	19,253
		35,675		26,366
Deferred remuneration paid out	**12**	**61,961**	11	9,980

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 Significant Related Party Transactions and Balances (Cont'd)

(b) Key management personnel compensation (Cont'd)

ii) Total value of remuneration awards for the financial year (Cont'd)

Bank

	31 Dec 2018		31 Dec 2017	
	Unrestricted RM'000	**Deferred RM'000**	Unrestricted RM'000	Deferred RM'000
Fixed remuneration				
Cash	**15,606**	**-**	16,469	-
Shares and share-linked instruments	**-**	**-**	-	-
	15,606	**-**	16,469	-
Variable remuneration				
Cash	**6,385**	**1,803**	7,408	3,215
Shares and share-linked instruments	**2,130**	**2,659**	3,229	4,227
	8,515	**4,462**	10,637	7,442
	24,121	**4,462**	27,106	7,442

Number of officers having received a variable remuneration during the financial year: 14 (2017: 12)

	31 Dec 2018		31 Dec 2017	
	Number	**Amount RM'000**	Number	Amount RM'000
Outstanding deferred remuneration				
Cash	**7**	**25,654**	5	7,113
Shares and share-linked instruments	**12**	**9,942**	11	19,253
		35,596		26,366
Deferred remuneration paid out	**12**	**61,961**	11	9,980

41 Credit exposure to connected parties

	Group		Bank	
	31 Dec 2018 RM'000	31 Dec 2017 RM'000	**31 Dec 2018 RM'000**	31 Dec 2017 RM'000
Aggregate value of outstanding credit exposures to connected parties	**4,759,397**	3,717,318	**3,785,509**	2,771,964
As a percentage of total credit exposures	**6.4%**	5.0%	**6.6%**	4.8%
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)

42 Capital Adequacy

	Group	
	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Tier 1 capital		
Paid-up ordinary share capital	**1,045,875**	1,045,875
Retained profits	**8,148,816**	7,562,878
Other reserves	**1,058,737**	802,284
Regulatory adjustments	**(1,229,423)**	(893,678)
Total Common Equity Tier 1 (CET 1) and Tier 1 capital	**9,024,005**	8,517,359
Tier 2 capital		
Subordinated liabilities	**400,000**	500,000
Subordinated term loan	**595,987**	583,598
Collective impairment allowance (unimpaired portion) & regulatory reserves	**636,819**	611,812
Regulatory adjustments	**109,557**	112,575
Total Tier 2 capital	**1,742,363**	1,807,985
Capital base	**10,766,368**	10,325,344
Inclusive of proposed dividend		
CET 1 and Tier 1 Capital ratio	**15.475%**	15.188%
Total Capital ratio	**18.463%**	18.412%
Net of proposed dividend		
CET 1 and Tier 1 Capital ratio	**15.021%**	14.831%
Total Capital ratio	**18.009%**	18.055%

The total capital and capital adequacy ratios of the Group have been computed based on Standardised Approach in accordance with the Capital Adequacy Framework (Capital Components).

For HBMS, a wholly 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). HBMS has adopted Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

Breakdown of risk-weighted assets (RWA) in the various categories of risk-weights:

	Group	
	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Total RWA for credit risk	**50,945,497** [1]	48,944,965 [1]
Total RWA for market risk	**1,712,316**	1,347,442
Total RWA for operational risk	**5,655,153**	5,787,374
	58,312,966	56,079,781

[1] The risk weighted amount for credit risk relating to the SIAF/IAA (refer Note 13(i) for more details) are as follows:

	Group	
	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Under SIAF/IAA arrangement	**2,129,589**	3,137,175

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

42 Capital Adequacy (Cont'd)

	Bank	
	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Tier 1 capital		
Paid-up ordinary share capital	**1,045,875**	1,045,875
Retained profits	**7,075,642**	6,641,367
Other reserves	**970,486**	767,339
Regulatory adjustments	**(1,794,661)**	(1,374,672)
Total Common Equity Tier 1 (CET1) and Tier 1 capital	**7,297,342**	7,079,909
Tier 2 capital		
Subordinated liabilities	**400,000**	500,000
Subordinated term loan	**595,987**	583,598
Collective impairment allowance (unimpaired portion) & regulatory reserves	**488,880**	443,739
Regulatory adjustments	**(486,430)**	(603,027)
Total Tier 2 capital	**998,437**	924,310
Capital base	**8,295,779**	8,004,219
Inclusive of proposed dividend		
CET 1 and Tier 1 Capital ratio	**15.948%**	15.957%
Total Capital ratio	**18.129%**	18.040%
Net of proposed dividend		
CET 1 and Tier 1 Capital ratio	**15.368%**	15.506%
Total Capital ratio	**17.550%**	17.590%

The total capital and capital adequacy ratios have been computed based on Standardised Approach in accordance with the Capital Adequacy Framework (Capital Components).

Breakdown of RWA in the various categories of risk-weights:

	Bank	
	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Total RWA for credit risk	**39,110,393** [1]	37,826,954 [1]
Total RWA for market risk	**1,620,465**	1,337,992
Total RWA for operational risk	**5,027,602**	5,203,610
	45,758,460	44,368,556

[1] The risk weighted amount for credit risk relating to the SIAF/IAA (refer Note 13(i) for more details) are as follows:

	Bank	
	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Under SIAF/IAA arrangement	**2,129,589**	3,137,175

43 Commitments and Contingencies

The table below shows the contracts or underlying principal amounts, 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.

These commitments and contingencies are not secured over the assets of the Group and of the Bank.

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
Principal amount	**RM'000**	RM'000	**RM'000**	RM'000
Direct credit substitutes	**2,289,301**	2,573,868	**1,797,498**	2,079,481
Transaction-related contingent items	**9,402,996**	9,489,136	**8,264,405**	8,492,366
Short-term self-liquidating trade-related contingencies	**374,060**	318,326	**310,949**	268,681
Formal standby facilities and credit lines				
- Maturity not exceeding one year	**6,064,570**	7,101,221	**4,689,703**	5,361,972
- Maturity exceeding one year	**12,067,621**	11,947,738	**9,911,365**	9,817,124
Other unconditionally cancellable	**14,109,814**	13,519,711	**12,568,266**	11,286,520
Unutilised credit card lines	**12,699,419**	11,587,852	**9,246,569**	8,563,420
Foreign exchange related contracts:				
- Less than one year	**83,850,057**	71,276,730	**86,707,857**	71,325,986
- Over one year to less than five years	**7,157,153**	7,500,859	**7,157,153**	7,488,345
- Over five years	**1,039,804**	1,605,588	**1,039,804**	1,605,588
Interest/profit rate related contracts:				
- Less than one year	**8,647,061**	14,999,855	**9,227,061**	15,109,855
- Over one year to less than five years	**27,940,646**	28,024,913	**29,611,812**	29,540,800
- Over five years	**1,386,770**	1,534,977	**1,386,770**	1,534,977
Gold and other precious metals contracts:				
- Less than one year	**6,559**	6,618	**6,559**	6,618
Equity related contracts:				
- Less than one year	**471,745**	268,827	**588,628**	271,772
- Over one year to less than five years	**1,041,419**	834,925	**1,403,647**	920,319
	188,548,995	182,591,144	**183,918,046**	173,673,824

of which the amount related to SIAF/IAA arrangement (refer Note 13(i) for more detail) are as below:

Formal standby facilities and credit lines:				
- Maturity not exceeding one year	**794,750**	1,047,532	**794,750**	1,047,532
- Maturity exceeding one year	**-**	237,166	**-**	237,166
	794,750	1,284,698	**794,750**	1,284,698

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

44 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 Dec 2018	**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	77,928,953	552,750	-	78,481,703	448,545	2,949	-	451,494	460,640	13,481	-	474,121
- Swaps	5,571,728	6,604,403	1,039,804	13,215,935	209,031	345,023	142,627	696,681	158,710	251,729	34,035	444,474
- Options	349,376	-	-	349,376	1,773	-	-	1,773	335	-	-	335
Interest/profit rate related contracts												
- Options	297,827	1,157,812	-	1,455,639	55	5,619	-	5,674	4,537	74	-	4,611
- Swaps	8,199,234	25,012,834	1,386,770	34,598,838	14,752	97,750	11,242	123,744	13,918	93,691	25,019	132,628
Equity related contracts												
- Options	471,745	1,041,419	-	1,513,164	3,180	17,048	-	20,228	14,861	35,519	-	50,380
Precious metal contracts												
- Options	6,559	-	-	6,559	16	-	-	16	50	-	-	50
Sub- total	92,825,422	34,369,218	2,426,574	129,621,214	677,352	468,389	153,869	1,299,610	653,051	394,494	59,054	1,106,599
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	150,000	1,770,000	-	1,920,000	-	329	-	329	158	9,528	-	9,686
Sub- total	150,000	1,770,000	-	1,920,000	-	329	-	329	158	9,528	-	9,686
Total	92,975,422	36,139,218	2,426,574	131,541,214	677,352	468,718	153,869	1,299,939	653,209	404,022	59,054	1,116,285

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

44 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 Dec 2017	**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	65,044,140	526,159	-	65,570,299	984,092	6,025	-	990,117	1,243,933	13,227	-	1,257,160
- Swaps	5,832,336	6,826,894	1,605,588	14,264,818	219,132	474,113	193,880	887,125	371,643	285,305	35,457	692,405
- Options	400,254	147,806	-	548,060	6,718	1,109	-	7,827	1,003	141	-	1,144
Interest/profit rate related contracts												
- Options	92,720	771,986	-	864,706	508	3,753	-	4,261	2,736	250	-	2,986
- Swaps	14,227,135	25,718,682	1,534,977	41,480,794	13,756	95,590	12,903	122,249	13,536	86,288	29,939	129,763
Equity related contracts												
- Options	268,827	834,925	-	1,103,752	962	29,175	-	30,137	193	3,527	-	3,720
Precious metal contracts												
- Options	6,618	-	-	6,618	-	-	-	-	44	-	-	44
Sub- total	85,872,030	34,826,452	3,140,565	123,839,047	1,225,168	609,765	206,783	2,041,716	1,633,088	388,738	65,396	2,087,222
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	680,000	1,534,245	-	2,214,245	1,221	2,288	-	3,509	450	8,733	-	9,183
Sub- total	680,000	1,534,245	-	2,214,245	1,221	2,288	-	3,509	450	8,733	-	9,183
Total	86,552,030	36,360,697	3,140,565	126,053,292	1,226,389	612,053	206,783	2,045,225	1,633,538	397,471	65,396	2,096,405

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

44 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 Dec 2018	**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	**80,786,753**	**552,750**	**-**	**81,339,503**	**449,477**	**2,949**	**-**	**452,426**	**460,779**	**13,481**	**-**	**474,260**
- Swaps	**5,571,728**	**6,604,403**	**1,039,804**	**13,215,935**	**209,817**	**344,425**	**142,627**	**696,869**	**158,710**	**251,729**	**34,035**	**444,474**
- Options	**349,376**	**-**	**-**	**349,376**	**1,773**	**-**	**-**	**1,773**	**335**	**-**	**-**	**335**
Interest rate related contracts												
- Options	**297,827**	**1,578,978**	**-**	**1,876,805**	**55**	**6,561**	**-**	**6,616**	**4,537**	**3,515**	**-**	**8,052**
- Swaps	**8,859,234**	**26,262,834**	**1,386,770**	**36,508,838**	**14,763**	**97,750**	**11,000**	**123,513**	**14,412**	**95,537**	**25,058**	**135,007**
Equity related contracts												
- Options	**588,628**	**1,403,647**	**-**	**1,992,275**	**3,180**	**18,540**	**-**	**21,720**	**16,894**	**45,804**	**-**	**62,698**
Precious metal contracts												
- Options	**6,559**	**-**	**-**	**6,559**	**16**	**-**	**-**	**16**	**50**	**-**	**-**	**50**
Sub- total	**96,460,105**	**36,402,612**	**2,426,574**	**135,289,291**	**679,081**	**470,225**	**153,627**	**1,302,933**	**655,717**	**410,066**	**59,093**	**1,124,876**
Hedging Derivatives:												
Fair Value Hedge												
Interest rate related contracts												
- Swaps	**70,000**	**1,770,000**	**-**	**1,840,000**	**-**	**329**	**-**	**329**	**158**	**9,528**	**-**	**9,686**
Sub- total	**70,000**	**1,770,000**	**-**	**1,840,000**	**-**	**329**	**-**	**329**	**158**	**9,528**	**-**	**9,686**
Total	**96,530,105**	**38,172,612**	**2,426,574**	**137,129,291**	**679,081**	**470,554**	**153,627**	**1,303,262**	**655,875**	**419,594**	**59,093**	**1,134,562**

44 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 Dec 2017	**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	65,080,882	526,159	-	65,607,041	985,036	6,025	-	991,061	1,244,445	13,227	-	1,257,672
- Swaps	5,832,336	6,826,894	1,605,588	14,264,818	219,132	472,709	193,880	885,721	371,643	285,305	35,457	692,405
- Options	412,768	135,292	-	548,060	6,854	973	-	7,827	1,139	5	-	1,144
Interest rate related contracts												
- Options	92,720	957,873	-	1,050,593	508	3,753	-	4,261	2,736	3,699	-	6,435
- Swaps	14,447,135	27,128,682	1,534,977	43,110,794	13,912	95,792	12,678	122,382	13,773	89,743	30,096	133,612
Equity related contracts												
- Options	271,772	920,319	-	1,192,091	962	29,282	-	30,244	193	9,058	-	9,251
Precious metal contracts												
- Options	6,618	-	-	6,618	-	-	-	-	44	-	-	44
Sub- total	86,144,231	36,495,219	3,140,565	125,780,015	1,226,404	608,534	206,558	2,041,496	1,633,973	401,037	65,553	2,100,563
Hedging Derivatives:												
Fair Value Hedge												
Interest rate related contracts												
- Swaps	570,000	1,454,245	-	2,024,245	1,221	2,288	-	3,509	294	8,398	-	8,692
Sub- total	570,000	1,454,245	-	2,024,245	1,221	2,288	-	3,509	294	8,398	-	8,692
Total	86,714,231	37,949,464	3,140,565	127,804,260	1,227,625	610,822	206,558	2,045,005	1,634,267	409,435	65,553	2,109,255

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
Included in the net non-profit income is the net losses arising from fair value hedges during the financial year as follows:	**RM'000**	RM'000	**RM'000**	RM'000
Losses on hedging instruments	**(1,411)**	(620)	**(1,411)**	(620)
Gain on the hedged items attributable to the hedged risk	**867**	654	**867**	654
Net losses from fair value hedges	**(544)**	34	**(544)**	34

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

45 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 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Carrying amount of assets and collateral pledged				
- Sold under repurchase agreements	**150,000**	-	**150,000**	-
- Collateral pledged on derivative contracts (ISDA[1]) -	**314,271**	91,720	**289,271**	116,720
Fair value of assets and collateral accepted				
- Securities bought under reverse repurchase agreement	**2,613,723**	1,964,930	**2,613,723**	2,020,512
- Securities sold under regulated short selling	**26,520**	21,372	**26,520**	21,372
- Collateral accepted on derivative contracts (ISDA[1])	**255,078**	682,257	**255,078**	682,257

[1] *ISDA: International Swaps and Derivatives Association*

46 Lease Commitments

The Group and the Bank have lease commitments in respect of rented premises, 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 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Less than one year	36,052	33,531	28,827	28,240
Between one and three years	48,574	17,141	42,486	13,808
Between three and five years	4,391	456	4,300	440
	89,017	51,128	**75,613**	42,488

47 Capital Commitments

	Group		*Bank*	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
	RM'000	RM'000	**RM'000**	RM'000
Property and equipment				
- Authorised and contracted, but not provided for	**329,601**	4,790	**329,408**	4,790

48 Equity-based Compensation

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

a. *Savings-Related Share Option Schemes*

The Savings-Related Share Option Schemes aims to align the interests of all employees with the creation of shareholder value, under which eligible HSBC employees are granted options to acquire HSBC Holdings ordinary shares. Employees may make monthly contributions up to £250 (or its equivalent in RM) over a period of one, three or five years with the option to use the savings to acquire shares. Alternatively the employee may elect to have the savings repaid in cash. The last grant of options under this plan was in 2012. 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, respectively. The exercise price is set at a 20% discount to the market value immediately preceding the date of invitation. 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

	2018		2017	
	Number ('000)	**Weighted average exercise price (£)**	Number ('000)	Weighted average exercise price (£)
Balance at 1 January	**12**	**4.41**	66	4.48
Exercised in the financial year	**(5)**	**4.39**	(52)	4.48
Cancelled in the financial year	**(5)**	**4.46**	-	-
Expired in the financial year	**(1)**	**4.46**	(2)	4.85
Balance at 31 December	**1**	**4.21**	12	4.41
Options vested at 31 December	**5**		52	

	2018 RM'000	2017 RM'000
Compensation cost recognised during the financial year	**1**	38

Bank

	2018		2017	
	Number ('000)	**Weighted average exercise price (£)**	Number ('000)	Weighted average exercise price (£)
Balance at 1 January	**12**	**4.41**	66	4.48
Exercised in the financial year	**(5)**	**4.39**	(52)	4.48
Cancelled in the financial year	**(5)**	**4.46**	-	-
Expired in the financial year	**(1)**	**4.46**	(2)	4.85
Balance at 31 December	**1**	**4.21**	12	4.41
Options vested at 31 December	**5**		52	

	2018 RM'000	2017 RM'000
Compensation cost recognised during the financial year	**1**	38

The weighted average remaining contractual life for the share options is 1.9 years (2017: 0.5 years).

48 Equity-based Compensation (Cont'd)

b. *Restricted Share Plan and Share Match Schemes*

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. An assessment of performance over the relevant period ending on 31 December is used to determine the amount of the award to be granted. Deferred awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. Deferred share awards generally vest over a period of three years. Vested shares may be subject to a retention requirement (restriction) post-vesting. 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.

The Share Match Schemes was first introduced in Malaysia in 2014. Eligible HSBC employees will acquire HSBC Holdings ordinary shares. Shares are purchased in the market each quarter up to a maximum value of £750 or the equivalent in local currency over a period of one year. Matching awards are added at a ratio of one free share for every three purchased. Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.

	Group		*Bank*	
	2018 Number ('000)	2017 Number ('000)	**2018 Number ('000)**	2017 Number ('000)
Balance at 1 January	**751**	909	**747**	903
Granted in the financial year	**479**	315	**475**	314
Exercised in the financial year	**(442)**	(383)	**(442)**	(381)
Released in the financial year	**(67)**	(67)	**(65)**	(66)
Cancelled in the financial year	**(12)**	(21)	**(11)**	(20)
Transferred out in the financial year	**(1)**	(2)	**(1)**	(3)
Balance at 31 December	**708**	751	**703**	747

	2018 RM'000	2017 RM'000	**2018 RM'000**	2017 RM'000
Compensation cost recognised during the financial year	**11,389**	14,295	**11,202**	14,188

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan and the Share Match Schemes is £6.42 (2017: £5.71). The weighted average fair value of the HSBC share at 31 December 2018 for the share granted during the year was £5.66 (2017: £5.20). The weighted average remaining vesting period as at 31 December 2018 was 1.90 years (2017: 2.71 years).