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

FINANCIAL STATEMENTS – 31 DECEMBER 2017

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

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

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BOARD OF DIRECTORS

Tan Sri Dato' Tan Boon Seng @ Krishnan
Independent Non-Executive Chairman *(appointed on 15 March 2017)*

Peter Wong Tung Shun
Non-Independent Executive Director *(re-designated on 5 February 2017)*

Mukhtar Malik Hussain
Non-Independent Executive Director/Chief Executive Officer

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

CORPORATE GOVERNANCE DISCLOSURES

The statement of corporate governance practices set out on pages 2 to 14 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, 66
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.

Peter Wong Tung Shun, 67
Non-Independent Executive Director
Appointed to the Board and as Chairman**:** February 2010
Re-designated as Non-Independent Executive Director since February 2017

Mr Wong holds a Bachelor's degree in Computer Science, MBA in Marketing and Finance and MSc in Computer Science from Indiana University in the United States. He joined HSBC in 2005, as Group General Manager, HSBC Holdings plc and Executive Director, The Hongkong and Shanghai Banking Corporation Limited, before assuming the position of Chief Executive for Asia-Pacific in February 2010. He became Deputy Chairman of The Hongkong and Shanghai Banking Corporation Limited in May 2013.

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

Mr Wong 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 17.

Mukhtar Malik Hussain, 58
Non-Independent Executive Director/Chief Executive Officer
Appointed to the Board and as Chief Executive Officer: 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 held numerous posts in Dubai, including Chief Executive Officer 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 Chief Executive Officer, 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 of HSBC Bank Middle East Limited and Global Chief Executive Officer of HSBC Amanah. He was also the Chief Executive Officer of Global Banking and Markets for Middle East and North Africa before assuming his current role as the Chief Executive Officer of the Bank in 2009.

He is a Non-independent Director of HSBC Amanah Malaysia Berhad, a HSBC Group General Manager and member of the Executive Committee of 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 17.

Lee Choo Hock, 65
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 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 the National University) 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.

He 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 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 structures within the Bank, headed by the Board of Directors and led by the Independent 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 they are also 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 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 5 February 2017, Mr Peter Wong Tung Shun, the Non-Independent Chairman, has been re-designated as Non-Independent Executive Director of the Bank.

On 15 March 2017, Tan Sri Dato' Krishnan Tan, an Independent Non-Executive Director, was appointed as Independent Chairman of the Bank and he has accordingly vacated his chairmanship in the Risk Committee and Nominations Committee in compliance with corporate governance standards of BNM Corporate Governance Policy.

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.

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 judgement, and there are no relationships or circumstances likely to affect the judgement of the Independent Non-Executive Directors.

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

CORPORATE GOVERNANCE DISCLOSURES (Cont'd)

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board of Directors (Cont'd)

Board and Committee Meetings

Six (6) Board meetings were held in 2017. The table below show each Director's attendance (including attendance via video conferencing) at meetings of all Board and Committee meetings during 2017. 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.

2017 Board and Committee meeting attendance	Board	Audit Committee	Risk Committee	Nominations and Remuneration Committee[5]
Total number of meetings held	**6**	**4**	**6**	**7**
Independent Chairman				
Tan Sri Dato' Tan Boon Seng @ Krishnan [1]	5	4	5	6
Non-Independent Executive Directors				
Peter Wong Tung Shun [2]	5	-	-	-
Mukhtar Malik Hussain	6	-	-	-
Independent Non-Executive Directors				
Lee Choo Hock	6	4	-	7
Tan Kar Leng @ Chen Kar Leng [3]	6	-	6	7
Choo Yoo Kwan @ Choo Yee Kwan [4]	6	4	6	6

[1] Appointed as Independent Chairman with effect from 15 March 2017
[2] Re-designated as Non-Independent Executive Director with effect from 5 February 2017.
[3] Appointed as Chairman of Nominations and Remuneration Committee on 13 February 2017.
[4] Appointed as Chairman of Risk Committee on 15 March 2017.
[5] Established on 13 February 2017.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board of Directors (Cont'd)

Directors' Emoluments

Details of the emoluments of the Directors of the Bank for 2017, disclosed in accordance with the Companies Act 2016, are shown in Note 35(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 Corporation 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 Corporation 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 organized by Financial Institutions Directors' Education (FIDE) Forum, and have received refresher training and presentation on IFRS 9. The Audit Committee and Risk Committee Chairmen have attended a three-day forum for the HSBC Group's Non-Executive Directors held in June 2017.

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 2017, 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.

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 2017, the Risk Committee held 6 meetings. Attendance is set out in the table on page 6.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board Committees (Cont'd)

3. Nominations and Remuneration Committee

On 13 February 2017, the Board approved the setting up of a combined Nominations and Remuneration Committee and delegated the 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 2017.

Chief Executive Officer'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 2017, 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 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 consists of key senior management members meets regularly and operates as a general management committee under the direct authority of the Board, 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 Chief Executive Officer, Mukhtar Malik Hussain, 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 Chief Executive Officer 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 authorized, and the terms of those authorizations, 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
- Business Progress Report
- Capital Contingency Funding Plan
- Credit Advances Reports
- Credit Transactions and Exposures to Connected Parties
- Financial Crime Compliance: Anti-Money Laundering and Counter Terrorist Financing Reports
- Financial Performance Report
- Internal Capital Adequacy Assessment Process
- Market Risk Limits
- Operational Risk Report
- People Plan
- Regulatory Compliance Report
- Risk Appetite Statement
- Risk Management Reports
- Scenario 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 14 February 2018, the date of approval of the audited financial statements of the Group and the Bank for the financial year ended 31 December 2017.

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 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 process is further supported by a chart of accounts with detailed instructions and guidance on reporting requirements issued by Global Finance to the Group and the Bank in advance of each quarterly reporting period end. The submission of financial information from the Group and the Bank is subject to certification by the responsible financial officer, and analytical review procedures at the Group and the Bank.

- **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 Audit Committee and the Risk Committee from audit and risk committees of principal subsidiary companies 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.

- **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.

INTERNAL CONTROL FRAMEWORK (Cont'd)

- **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, Functions and certain geographical regions within the framework of the HSBC Group's overall strategy. 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.

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 is aiming 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 2017	• Long term	AAA
		• Short term	P1
		• Subordinated liabilities	AA1
		• Outlook	Stable
Moody's Investors Service	September 2017	• 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 2017	• 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 2017.

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
- Peter Wong Tung Shun
- Mukhtar Malik Hussain
- Lee Choo Hock
- Tan Kar Leng @ Chen Kar Leng
- Choo Yoo Kwan @ Choo Yee Kwan

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	**1,240,220**	**1,133,907**
Income tax expense	**(298,409)**	**(278,476)**
Profit after income tax expense	**941,811**	**855,431**

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 1.1.2017	Acquired	Disposed	As at 31.12.2017
HSBC Holdings plc				
Ordinary shares of USD0.50				
Peter Wong Tung Shun [1]	2,006,324	746,902	(919,690)	1,833,536
Mukhtar Malik Hussain	1,240,576	111,001	(67,691)	1,283,886

	Number of Shares			
	Shares held at 1.1.2017	Shares issued during the year [2]	Shares vested during the year	Shares held at 31.12.2017
HSBC Holdings plc				
HSBC Share Plan				
Peter Wong Tung Shun	1,315,716	241,905	(493,753)	1,063,868
Mukhtar Malik Hussain	398,537	98,184	(138,086)	358,635

[1] *Including the interest of spouse, UBS AG (as a chargor) and HSBC Nominees (Hong Kong) Limited*
[2] *Includes scrip dividends*

None of the other Directors holding office at 31 December 2017 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 or declared since the end of the previous financial year were as follows:

<u>In respect of financial year ended 31 December 2016:</u>

The Bank paid a final dividend of RM0.87 per ordinary share amounting to RM200 million. The dividend was paid on 11 May 2017. This has been shown in the previous financial year Directors' report.

<u>In respect of financial year ended 31 December 2017:</u>

The Bank paid an interim dividend for the financial year ended 2017 of RM0.87 per ordinary share amounting to RM200 million. The dividend was paid on 20 September 2017.

The Directors recommend the payment of a final dividend of RM0.87 per share, amounting to net dividend payment of RM200 million in respect of the financial year ended 31 December 2017. 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

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.

OTHER STATUTORY INFORMATION (Cont'd)

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 14 to the financial statements.

DIRECTORS' REMUNERATION

Details of Directors' remuneration are set out in Note 35 to the financial statements.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 32 to the financial statements.

2017 Business Strategy

The liquidity and capital position of the Group and the Bank remain healthy and well above the regulatory requirement throughout 2017. This financial strength is recognised by external parties including RAM Ratings Services Berhad, which in 2017 reaffirmed the Bank and its wholly owned subsidiary, HSBC Amanah Malaysia Berhad'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 2017.

On the retail business, Retail Banking and Wealth Management (RBWM) focused on growing emerging affluent client base, enhancing wealth management business, expanding cards base and strengthening controls. Premier and Advance customer proposition continued to be supported through various customer acquisition campaigns. Wealth penetration was improved with new products offering. Cards market share expanded via new cards acquisition leveraging on different acquisition channels including digital, third party sales agents and in house mobile sales channel.

Towards the end of the 2016, BNM introduced several measures to ensure liquidity and demand of Ringgit remained robust. Wholesale business has worked closely with our corporate customers (both importers and exporters) to manage their exposure accordingly. While corporate flows increased due to the requirement for exporters to convert 75% of their proceeds and subsequent re-conversion, margins were largely compressed due to the regulatory direction. Global Banking & Markets (GBM) continued to seize the advantage of its debt capital market leadership and expertise to secure key deals, enhance cross border connectivity, as well as capture key growth opportunities in ASEAN and Belt and Road Initiative (BRI). HSBC Security Services (HSS) also once again asserted its market leadership position as leading custodian and fund administrator by securing its position as Best Sub-Custodian (10th consecutive year) and No.1 Sub Custodian (9th consecutive year). In addition, HSS has also increased market penetration for custodian services to key local market segments, including insurance.

Commercial Banking (CMB) focused on selective growth in quality assets while embedding risk measures to attain sustainable business model that meet Global Standards on financial crime controls. Growth was achieved through cross border collaboration to capture inbound and outbound business opportunities especially with China, Vietnam and Singapore. With strong capabilities around structuring deals and connectivity to HSBC in other countries, CMB offered differentiated product offerings to support clients' business both within and outside Malaysia. Significant progress was also achieved in driving efficiency through continued investment in digital platform and streamlining initiatives.

In 2017, corporate social responsibility was also a key focus area which the Group continued to put high emphasis on. The Bank attained the Best Bank for Corporate Social Responsibility (CSR) in Malaysia award in 2017 from Asia Money. The Group and the Bank will continue to invest in the long term future of the community in which we operate by focusing on education, environment, health and wellness initiatives because we believe those areas will provide the fundamental building blocks for creating thriving communities in Malaysia.

Performance Review 2017

2017 was a challenging year where the management's focus was on the control agenda. The Group demonstrated its resilience by maintaining a respectable financial performance with a profit before tax of RM1,240.2 million for the financial year ended 31 December 2017, a decrease of 6.3% or RM83.0 million compared to previous year.

Operating income before impairment losses of RM3.0 million had increased by RM37.0 million or 1.2% compared to 2016. Net interest income had decreased by 0.6% compared to last year due to increased market competition. On non interest income, net trading income had increased by 51.6% mainly contributed by the foreign exchange volatility. Net fee income had increased by RM7.0 million from higher agency fee income, offset with higher card cost.

The lower profit was mainly attributable to higher net loan/financing impairment charges by RM74.6 million, mainly due to higher allowance made on net collective impairment on the basis of higher expected loss for corporates.

The Group continued to place high importance on the need to manage its operating expenses by ensuring resources being invested in a sustainable manner. In 2017, the Group overall costs base had increased by 3.0%. Investments in technology and compliance related costs increased in 2017, reflecting our commitment towards the control agenda and to invest in people and systems to detect, deter and protect the Group and the Bank against financial crime.

Total assets size at 31 December 2017 stood at RM80.7 billion, RM4.7 billion lower compared against 31 December 2016 (RM85.4 billion). The Group's capital and liquidity ratios continues to remain strong and is well above the regulatory requirements.

Outlook for 2018

Malaysia's real Gross Domestic Product (GDP) expanded 5.9% in 2017 (2016:4.2%), higher than the forecast of 5.2% - 5.7%. The positive trend is forecasted to follow through to 2018 with growth anticipated to be in the range of 5.0% - 5.5%, underpinned by resilient domestic demand and exports. Looking ahead, the strong growth momentum is expected to continue in 2018.

Headline inflation elevated at 3.7% in 2017 (2016: 2.1%). The trending of headline inflation will be dependent on future global oil prices which remain highly uncertain. On 25 January 2018, Bank Negara Malaysia had increased the Overnight Policy Rate (OPR) by 25 basis points to 3.25 percent.

Towards the second half of 2017, the Ringgit has strengthened against the US dollar and most regional currencies, supported mainly by trade and non-resident portfolio inflows. Going forward, the Ringgit will continue to be driven by a confluence of external and domestic factors. This include the timing and pace of monetary policy normalisation by major central banks, global geopolitical development and the domestic economic performance. The attractive valuation of the Ringgit make local assets such as bonds and equities attractive to foreign investors.

Malaysian Financial Reporting Standard 9: Financial Instruments (MFRS 9) comes into effect on 1 January 2018, requires banks to make provisions for expected credit losses over the tenure of the loans, including undrawn balances. Hence, banks' earnings may potentially be impacted due to the higher credit costs moving forward.

From funding perspective, the banking system liquidity is expected to remain robust and sufficient to facilitate financial intermediation. However, competition among lenders for deposits is foreseen to increase, with the upcoming Basel III's Net Stable Funding Ratio measure, to be implemented no earlier than 1 January 2019.

Malaysia will introduce its first Islamic Digital Economy (IDE) framework to claim the leadership role in the global shariah compliant marketplace. The framework is expected to be ready by the first quarter of 2018 and will cover areas such as shariah compliance, funding and financing, Islamic digital economy regulation as well as the shariah compliant business operation frameworks.

The Group and the Bank will continue to capitalise on infrastructure related opportunities, especially BRI related. The focus is to capture opportunities along the entire supply chain of Chinese investment into Malaysia infrastructure. Leveraging on HSBC connectivity, we will explore business opportunity based on intra ASEAN corridors and ASEAN government initiatives. The Amanah Platform will continue to be optimised to grow Islamic Commercial Banking business through growing share of wallet of existing clients and enhanced product offerings and services. The Group and the Bank will also focus on expanding customers' base to increase market share where it has comparative advantage.

Malaysia continues to be an identified priority market for HSBC Group and is an important footprint for the HSBC Group within ASEAN. The announcement to invest up to USD250 million in the construction of a new Malaysian head office in Tun Razak Exchange in 2017 reflects HSBC long term commitment to its Malaysia franchise.

Awards won during the financial year

HSBC Bank Malaysia Berhad

1. **Best Service Provider** – Malaysia from The Asset Triple A Treasury, Trade, Supply Chain and Risk Management Awards 2017

2. **Best Bank for Corporate Social Responsibility –** Asiamoney Banking Awards 2017

3. **Best Domestic Cash Manager –** Euromoney Cash Management Survey 2017

4. **Best Fund Administrator (Retail Funds) -** The Asset Triple A Asset Servicing, Fund Management and Investors Awards 2017 (2nd Consecutive years)

5. **Best Sub-Custodian -** The Asset Triple A Asset Servicing, Fund Management and Investors Awards 2017 (10th Consecutive years)

6. **No.1 Sub-Custodian –** Global Investor / ISF Sub-Custody Survey 2017 (9th Consecutive years)

7. **Best Overall Project for BRI for the Double Tracking Rail project –** Asiamoney's New Silk Road Finance Awards 2017

8. **The Most Active Ringgit FX Bank 2017 -** The Financial Markets Association of Malaysia (FMAM)

9. **The Most Active FX Bank for Non-Resident Hedging Onshore 2017 -** The Financial Markets Association of Malaysia (FMAM)

10. **Best Malaysia Deal (Geely's acquisition of 49.9% of Proton and 51% of Lotus, from DRB-Hicom) –** FinanceAsia Achievement Awards 2017

11. **Best Corporate and Institutional Bank – Global**, The Asset Triple A Country Awards 2017

12. **Best Bond Adviser – Global**, The Asset Triple A Country Awards 2017

13. **Best Deals – Best FIG Bond**, Maybank's RMB 1 billion 3-year panda bond, HSBC acted as the joint lead underwriters, The Asset Triple A Country Awards 2017

14. **Best Graduate Recruitment Programme (Gold),** Human Resources Asia Recruitment Awards 2017

15. **Best Recruitment Evaluation Technique (Silver),** Human Resources Asia Recruitment Awards 2017

16. **Best Staff Referral Programme (Bronze),** Human Resources Asia Recruitment Awards 2017

17. **National Biller Acquisition- Mid-Sized Acquirer (Second place),** MyClear Malaysian e-Payments Excellence Awards 2017

Awards won during the financial year (Cont'd)

HSBC Amanah Malaysia Berhad

1. **Islamic Deal of the Year** – Government of Malaysia US$1.5 billion dual-tranche trust certificates, HSBC Amanah acted as the joint bookrunner and manager, The Asset Triple A Islamic Finance Awards 2017.

2. **Best Sovereign Sukuk** - Government of Malaysia US$1.5 billion dual-tranche trust certificates, HSBC Amanah acted as the joint bookrunner and manager, The Asset Triple A Islamic Finance Awards 2017.

3. **Best Sukuk** - Government of Malaysia US$1.5 billion dual-tranche trust certificates, HSBC Amanah acted as the joint bookrunner and manager, The Asset Triple A Islamic Finance Awards 2017.

4. **Best Government Guaranteed Sukuk** – DanaInfra Nasional Berhad 4.5 billion ringgit murabaha sukuk, HSBC Amanah acted as the joint lead arranger and lead manager, The Asset Triple A Islamic Finance Awards 2017.

5. **Best Corporate Sukuk** – TNB Global Ventures Capital Berhad US$750 million wakala sukuk, HSBC Amanah acted as the joint bookrunner and lead manager, The Asset Triple A Islamic Finance Awards 2017.

6. **Best Local Currency Sukuk** – Cagamas Berhad 375 million ringgit commodity murabaha sukuk, HSBC Amanah acted as shariah adviser, The Asset Triple A Islamic Finance Awards 2017.

7. **Best Islamic Deal, Malaysia** – Government of Malaysia US$1.5 billion dual-tranche trust certificates, HSBC Amanah acted as joint bookrunners and managers, The Asset Triple A Islamic Finance Awards 2017.

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to accept re-appointment as auditors. PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 2 January 2018 and with effect from that date, PricewaterhouseCoopers (AF 1146), a conventional partnership, was converted to a limited liability partnership. 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 14 February 2018.

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

……………………..……………………..…..….	……………………..……………………..…..….
MUKHTAR MALIK HUSSAIN	**LEE CHOO HOCK**
Director	Director

Kuala Lumpur, Malaysia
14 February 2018

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, Mukhtar Malik Hussain 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 32 to 162 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 2017 and financial performance of the Group and of the Bank for the financial year ended 31 December 2017 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 14 February 2018.

……………………..………………..…..….
MUKHTAR MALIK HUSSAIN
Director

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

Kuala Lumpur, Malaysia
14 February 2018

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 32 to 162 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 14 February 2018.

....
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 2017, 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 2017 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 32 to 162.

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)

Information other than the financial statements and auditors' report thereon

The directors of the Bank are responsible for the other information. The other information comprises the list of Board of Directors, Corporate Governance Disclosures, Internal Control Framework, 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.

Responsibilities of the directors for the financial statements

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 judgement 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
20 February 2018

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

STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2017

	Note	*Group* 31 Dec 2017 RM'000	*Group* 31 Dec 2016 RM'000 (Restated)	*Bank* 31 Dec 2017 RM'000	*Bank* 31 Dec 2016 RM'000 (Restated)
Assets					
Cash and short-term funds	*6*	**10,313,776**	16,804,114	**8,879,053**	14,999,888
Securities purchased under resale agreements		**1,964,930**	6,162,230	**1,964,930**	6,162,230
Deposits and placements with banks and other financial institutions	*7*	**709,999**	1,861,400	**3,703,498**	3,875,486
Financial assets held-for-trading	*8*	**1,988,719**	2,266,452	**1,988,719**	2,265,964
Financial investments available-for-sale	*9*	**9,780,405**	6,558,044	**7,559,361**	5,189,470
Loans, advances and financing	*10*	**51,979,654**	46,894,834	**38,595,851**	35,151,571
Derivative financial assets	*39*	**2,045,225**	2,988,954	**2,045,005**	3,089,446
Other assets	*12*	**331,500**	261,639	**472,398**	267,107
Statutory deposits with Bank Negara Malaysia	*13*	**1,084,888**	1,118,360	**723,526**	792,898
Investments in subsidiary companies	*14*	**-**	-	**660,021**	660,021
Property and equipment	*16*	**371,259**	364,324	**365,739**	357,087
Intangible assets	*17*	**46,573**	58,731	**46,573**	58,731
Tax recoverable		**28,474**	57,235	**20,850**	46,950
Deferred tax assets	*18*	**103,105**	28,258	**94,468**	17,863
Total assets		**80,748,507**	85,424,575	**67,119,992**	72,934,712
Liabilities					
Deposits from customers	*19*	**56,551,151**	57,711,534	**46,516,647**	48,985,012
Deposits and placements from banks and other financial institutions	*20*	**5,353,609**	6,571,193	**4,432,767**	6,542,777
Bills payable		**318,009**	326,305	**301,331**	302,673
Derivative financial liabilities	*39*	**2,096,405**	3,127,028	**2,109,255**	3,132,513
Other liabilities	*21*	**4,682,041**	5,554,326	**4,221,857**	4,454,700
Provision for taxation		**74,400**	-	**74,400**	-
Multi-Currency Sukuk Programme	*22*	**1,252,829**	1,756,001	**-**	-
Subordinated liabilities	*23*	**1,083,903**	1,648,824	**1,083,903**	1,648,824
Total liabilities		**71,412,347**	76,695,211	**58,740,160**	65,066,499
Equity					
Share capital	*24*	**1,045,875**	114,500	**1,045,875**	114,500
Reserves	*25*	**8,290,285**	8,614,864	**7,333,957**	7,753,713
Total equity attributable to owner of the Bank		**9,336,160**	8,729,364	**8,379,832**	7,868,213
Total liabilities and equity		**80,748,507**	85,424,575	**67,119,992**	72,934,712
Commitments and contingencies	*38*	**182,591,144**	173,191,009	**173,673,824**	166,087,429

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 2017

		Group		Bank	
		31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Interest income	*26*	**2,256,026**	2,316,096	**2,334,198**	2,389,638
Interest expense	*26*	**(809,453)**	(860,168)	**(809,453)**	(860,168)
Net interest income	*26*	**1,446,573**	1,455,928	**1,524,745**	1,529,470
Fee and commission income	*27*	**472,120**	456,799	**472,120**	456,829
Fee and commission expense	*27*	**(87,327)**	(78,967)	**(87,327)**	(78,967)
Net fee and commission income	*27*	**384,793**	377,832	**384,793**	377,862
Net trading income	*28*	**767,391**	506,262	**564,175**	555,987
Income from Islamic banking operations	*29*	**385,825**	592,122	**-**	-
Other operating income	*30*	**36,477**	51,957	**158,737**	180,332
Operating income before impairment losses		**3,021,059**	2,984,101	**2,632,450**	2,643,651
Loans/financing impairment charges and other credit risk provisions	*31*	**(243,064)**	(168,504)	**(74,461)**	(31,639)
Net operating income		**2,777,995**	2,815,597	**2,557,989**	2,612,012
Other operating expenses	*32*	**(1,537,775)**	(1,492,381)	**(1,424,082)**	(1,390,420)
Profit before tax		**1,240,220**	1,323,216	**1,133,907**	1,221,592
Tax expense	*33*	**(298,409)**	(324,967)	**(278,476)**	(304,736)
Profit for the financial year		**941,811**	998,249	**855,431**	916,856
Other comprehensive income/(expense)					
Items that will subsequently be reclassified to profit or loss when specific conditions are met					
Revaluation reserve:					
Surplus on revaluation properties		**4,017**	35,006	**4,017**	35,006
Deferred tax adjustment on revaluation reserve		**(964)**	(3,657)	**(964)**	(3,657)
Own credit reserve:					
Change in fair value		**2,731**	-	**-**	-
Income tax effect		**(655)**	-	**-**	-
Available-for-sale reserve:					
Change in fair value		**68,972**	124,791	**60,122**	133,059
Amount transferred to profit or loss		**(2,524)**	(42,438)	**(2,524)**	(35,584)
Income tax effect		**(15,948)**	(19,765)	**(13,824)**	(23,394)
Other comprehensive income for the financial year, net of income tax		**55,629**	93,937	**46,827**	105,430
Total comprehensive income for the financial year		**997,440**	1,092,186	**902,258**	1,022,286
Profit attributable to the owner of the Bank		**941,811**	998,249	**855,431**	916,856
Total comprehensive income attributable to the owner of the Bank		**997,440**	1,092,186	**902,258**	1,022,286
Basic earnings per RM0.50 ordinary share	*34*	**411.3 sen**	435.9 sen	**373.6 sen**	400.4 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 2017

Group (RM'000)	*Share capital*	*Share premium*	*Statutory reserve* [1]	*Revaluation reserve*	*Capital redemption reserve*	*Available-for-sale reserve*	*Own credit reserve* [2]	*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**	**-**	**83,841**	**284,000**	**6,853,762**	**8,729,364**
- Effects of early adopting MFRS 9 on 1 January 2017 [2]	**-**	**-**	**-**	**-**	**-**	**-**	**(1,846)**	**-**	**-**	**1,846**	**-**
As restated	**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 [3]	**931,375**	**(741,375)**	**-**	**-**	**(190,000)**	**-**	**-**	**-**	**-**	**-**	**-**
Transfer in accordance with BNM's requirement [1]	**-**	**-**	**(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] 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.

[2] With effect from 1 January 2017, the Group had early applied the requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss in paragraph 5.7.1(c), 5.7.7-5.7.9, 7.2.14 and B5.7.5-B5.7.20 of MFRS 9 Financial Instruments, without applying the other requirements of MFRS 9. Please refer to Note 44 for details.

[3] 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.

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 2017 (Cont'd)

Group (RM'000)	*Share capital*	*Share premium*	*Statutory reserve*	*Revaluation reserve*	*Capital redemption reserve*	*Available-for-sale reserve*	*Capital contribution reserve*	*Regulatory reserve*	*Retained profits*	*Total equity*
2016										
Balance at 1 January	114,500	741,375	164,500	186,962	190,000	18,569	95,953	284,000	6,052,662	7,848,521
Total comprehensive income for the financial year										
Profit for the financial year	-	-	-	-	-	-	-	-	998,249	998,249
Other comprehensive income, net of income tax										
Revaluation reserve:										
Transfer to retained profits upon realisation of depreciation	-	-	-	(2,082)	-	-	-	-	2,082	-
Surplus on revaluation of properties	-	-	-	35,006	-	-	-	-	-	35,006
Deferred tax adjustment on revaluation reserve	-	-	-	(3,657)	-	-	-	-	-	(3,657)
Available-for-sale reserve:										
Net change in fair value	-	-	-	-	-	94,841	-	-	-	94,841
Net amount transferred to profit or loss	-	-	-	-	-	(32,253)	-	-	-	(32,253)
Total other comprehensive income	-	-	-	*29,267*	-	*62,588*	-	-	*2,082*	*93,937*
Total comprehensive income for the financial year	-	-	-	29,267	-	62,588	-	-	1,000,331	1,092,186
Transactions with the owner, recorded directly in equity										
Share based payment transactions	-	-	-	-	-	-	(12,112)	-	769	(11,343)
Dividends paid to owner - 2016 interim	-	-	-	-	-	-	-	-	(200,000)	(200,000)
Balance at 31 December	114,500	741,375	164,500	216,229	190,000	81,157	83,841	284,000	6,853,762	8,729,364

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 2017 (Cont'd)

Bank (RM'000)	*Non-distributable*								*Distributable*	
	Share capital	*Share premium*	*Statutory reserve* [1]	*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 [2]	**931,375**	**(741,375)**	**-**	**-**	**(190,000)**	**-**	**-**	**-**	**-**	**-**
Transfer in accordance with BNM's requirement [1]	**-**	**-**	**(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] With effect from 3 May 2017, the Bank was no longer required to maintain statutory reserve pursuant to Bank Negara Malaysia's guideline on Capital Funds.

[2] 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.

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HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
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STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (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*
2016										
Balance at 1 January	114,500	741,375	114,500	186,962	190,000	13,623	94,895	250,000	5,350,760	7,056,615
Total comprehensive income for the financial year										
Profit for the financial year	-	-	-	-	-	-	-	-	916,856	916,856
Other comprehensive income, net of income tax										
Revaluation reserve:										
Transfer to retained profits upon realisation of depreciation	-	-	-	(2,082)	-	-	-	-	2,082	-
Surplus on revaluation of properties	-	-	-	35,006	-	-	-	-	-	35,006
Deferred tax adjustment on revaluation reserve	-	-	-	(3,657)	-	-	-	-	-	(3,657)
Available-for-sale reserve:										
Net change in fair value	-	-	-	-	-	101,125	-	-	-	101,125
Net amount transferred to profit or loss	-	-	-	-	-	(27,044)	-	-	-	(27,044)
Total other comprehensive income	-	-	-	*29,267*	-	*74,081*	-	-	*2,082*	*105,430*
Total comprehensive income for the financial year	-	-	-	29,267	-	74,081	-	-	918,938	1,022,286
Transactions with the owner, recorded directly in equity										
Share based payment transactions	-	-	-	-	-	-	(11,457)	-	769	(10,688)
Dividends paid to owner - 2016 interim	-	-	-	-	-	-	-	-	(200,000)	(200,000)
Balance at 31 December	114,500	741,375	114,500	216,229	190,000	87,704	83,438	250,000	6,070,467	7,868,213

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 2017

	Group	
	31 Dec 2017 RM'000	31 Dec 2016 RM'000
Cash Flows from Operating Activities		
Profit before income tax expense	**1,240,220**	1,323,216
Adjustments for :		
Property and equipment written off	**70**	5
Intangible assets written off	**618**	1,569
Depreciation of property and equipment	**22,417**	27,034
Amortisation of intangible assets	**22,187**	22,703
Net gains on disposal of property and equipment	**(73)**	(84)
Net upwards revaluation on property	**(17)**	(73)
Impairment of intangibles	**156**	-
Unrealised losses on financial instruments at fair value through profit or loss	**761**	6,178
Share-based payment transactions	**14,333**	9,886
Dividend income	**(2,319)**	(1,450)
Unrealised (gains)/losses on revaluation of financial assets held-for-trading	**(18,352)**	24,720
Unrealised (gains)/losses on revaluation of subordinated liabilities	**(64,921)**	27,484
Unrealised losses on revaluation of derivatives	**118,673**	9,830
Unrealised losses from dealing in foreign currency	**293,967**	120,805
Allowance for impairment losses on loans and financing	**332,268**	261,299
Operating profit before changes in operating assets and liabilities	**1,959,988**	1,833,122
(Increase)/Decrease in operating assets		
Securities purchased under resale agreements	**4,197,300**	391,524
Deposits and placements with banks and other financial institutions	**1,151,401**	(1,861,400)
Financial assets held-for-trading	**296,085**	(793,814)
Loans, advances and financing	**(5,417,088)**	4,066,060
Derivative financial assets	**531,089**	197,601
Other assets	**(57,546)**	(14,478)
Statutory deposits with Bank Negara Malaysia	**33,472**	55,750
Total decrease in operating assets	**734,713**	2,041,243
Decrease in operating liabilities		
Deposits from customers	**(1,160,383)**	(2,583,712)
Deposits and placements from banks and other financial institutions	**(1,217,584)**	(1,391,173)
Bills payable	**(8,296)**	(10,913)
Derivative financial liabilities	**(1,031,825)**	(306,732)
Other liabilities	**(758,761)**	(862,482)
Total decrease in operating liabilities	**(4,176,849)**	(5,155,012)
Cash used in operating activities	**(1,482,148)**	(1,280,647)
Income tax paid	**(287,673)**	(375,055)
Net cash used in operating activities	**(1,769,821)**	(1,655,702)
Cash Flows from Investing Activities		
Purchase of financial investment available-for-sale	**(12,637,464)**	(7,123,354)
Proceeds from disposal/redemption of financial investment available-for-sale	**9,469,236**	7,694,210
Purchase of property and equipment	**(25,541)**	(15,206)
Purchase of intangible assets	**(10,803)**	(18,301)
Proceeds from disposal of property and equipment	**226**	392
Dividends received	**2,319**	1,450
Net cash (used in)/generated from investing activities	**(3,202,027)**	539,191

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

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
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STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (Cont'd)

	Group	
	31 Dec 2017	31 Dec 2016
	RM'000	RM'000
Cash Flows from Financing Activities		
Redemption from subordinated liabilities	**(500,000)**	-
Interest paid on subordinated liabilities	**(51,957)**	(61,906)
Redemption from Multi-Currency Sukuk Programme	**(500,000)**	-
Profits paid on Multi-Currency Sukuk Programme	**(66,533)**	(69,378)
Dividends paid	**(400,000)**	(200,000)
Net cash used in financing activities	**(1,518,490)**	(331,284)
Net decrease in Cash and Cash Equivalents	**(6,490,338)**	(1,447,795)
Cash and Cash Equivalents at beginning of the financial year	**16,804,114**	18,251,909
Cash and Cash Equivalents at end of the financial year	**10,313,776**	16,804,114
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**10,313,776**	16,804,114
Cash and cash equivalents comprise the following:		
Cash and short-term funds	**10,313,776**	16,804,114
Adjustment for cash collateral	**(91,720)**	(1,079,045)
Cash and cash equivalents	**10,222,056**	15,725,069

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 2017 (Cont'd)

	Bank	
	31 Dec 2017	31 Dec 2016
	RM'000	RM'000
Cash Flows from Operating Activities		
Profit before income tax expense	**1,133,907**	1,221,592
Adjustments for :		
Property and equipment written off	**67**	5
Intangible assets written off	**618**	1,569
Depreciation of property and equipment	**18,402**	22,005
Amortisation of intangible assets	**22,187**	22,703
Net gains on disposal of property and equipment	**(73)**	(84)
Net upwards revaluation on property	**(17)**	(73)
Impairment of intangibles	**156**	-
Share-based payment transactions	**14,226**	10,475
Dividend income	**(2,319)**	(1,450)
Unrealised (gains)/losses on revaluation of financial assets held-for-trading	**(17,313)**	24,720
Unrealised (gains)/losses on revaluation of subordinated liabilities	**(64,921)**	27,484
Unrealised losses on revaluation of derivatives	**123,501**	16,802
Unrealised losses from dealing in foreign currency	**494,055**	67,407
Allowance for impairment losses on loans and financing	**129,699**	92,569
Operating profit before changes in operating assets and liabilities	**1,852,175**	1,505,724
Decrease/(Increase) in operating assets		
Securities purchased under resale agreements	**4,197,300**	391,524
Deposits and placements with banks and other financial institutions	**171,988**	(1,240,282)
Financial assets held-for-trading	**294,558**	(803,818)
Loans, advances and financing	**(3,573,979)**	4,009,836
Derivative financial assets	**426,885**	314,574
Other assets	**(192,847)**	(35,026)
Statutory deposits with Bank Negara Malaysia	**69,372**	51,550
Total decrease in operating assets	**1,393,277**	2,688,358
Decrease in operating liabilities		
Deposits from customers	**(2,468,365)**	(1,924,111)
Deposits and placements from banks and other financial institutions	**(2,110,010)**	(92,828)
Bills payable	**(1,342)**	(19,641)
Derivative financial liabilities	**(1,023,258)**	(306,354)
Other liabilities	**(185,751)**	(776,274)
Total decrease in operating liabilities	**(5,788,726)**	(3,119,208)
Cash (used in)/generated from operating activities	**(2,543,274)**	1,074,874
Income tax paid	**(269,369)**	(348,396)
Net cash (used in)/generated from operating activities	**(2,812,643)**	726,478
Cash Flows from Investing Activities		
Purchase of financial investment available-for-sale	**(11,038,884)**	(6,471,859)
Proceeds from disposal/redemption of financial investment available-for-sale	**8,714,147**	6,718,779
Purchase of property and equipment	**(23,240)**	(13,228)
Purchase of intangible assets	**(10,803)**	(18,301)
Proceeds from disposal of property and equipment	**226**	392
Dividend received	**2,319**	1,450
Net cash (used in)/generated from investing activities	**(2,356,235)**	217,233

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 2017 (Cont'd)

	Bank	
	31 Dec 2017	31 Dec 2016
	RM'000	RM'000
Cash Flows from Financing Activities		
Redemption from subordinated liabilities	**(500,000)**	-
Interest paid on subordinated liabilities	**(51,957)**	(61,906)
Dividends paid	**(400,000)**	(200,000)
Net cash used in financing activities	**(951,957)**	(261,906)
Net (decrease)/increase in Cash and Cash Equivalents	**(6,120,835)**	681,805
Cash and Cash Equivalents at beginning of the financial year	**14,999,888**	14,318,083
Cash and Cash Equivalents at end of the financial year	**8,879,053**	14,999,888
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**8,879,053**	14,999,888
Cash and cash equivalents comprise the following:		
Cash and short-term funds	**8,879,053**	14,999,888
Adjustment for cash collateral	**(116,720)**	(1,429,045)
Cash and cash Equivalents	**8,762,333**	13,570,843

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 2017 (Cont'd)

Group (RM'000)

Cash Flows from Financing Activities	At 1 Jan 2017	Cash flow	Foreign exchange adjustment	Fair value movement	Interest/Profit accrual	At 31 Dec 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:						
Interest paid on Multi-Currency Sukuk Programme	17,637	(66,533)	-	-	61,711	12,815
Interest paid on Subordinated liabilities	4,797	(70,289)	-	-	74,384	8,892

Bank (RM'000)

Cash Flows from Financing Activities	At 1 Jan 2017	Cash flow	Foreign exchange adjustment	Fair value movement	Interest/Profit accrual	At 31 Dec 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

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 14 February 2018.

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 2017 are as follows:

- Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative'
- Amendments to MFRS 112 'Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses'
- Annual Improvements to MFRSs 2014 – 2016 Cycle: MFRS 12 'Disclosures of Interests in Other Entities'

The adoption of the Amendments to MFRS 107 has required additional disclosure of changes in liabilities arising from financing activities. Other than that, the adoption of these amendments did not have any impact on the current year or any prior period and is not likely to affect future periods.

(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:

a. Financial year beginning on/after 1 January 2018:

- Amendments to MFRS 140 'Classification on 'Change in Use' – Assets transferred to, or from, Investment Properties' clarify that to transfer to, or from investment properties there must be a change in use. A change in use would involve an assessment of whether a property meets, or has ceased to meet, the definition of investment property. The change must be supported by evidence that the change in use has occurred and a change in management's intention in isolation is not sufficient to support a transfer of property.

  The amendments also clarify the same principle applies to assets under construction.

(a) Statement of compliance (Cont'd)

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

The Group and the Bank will apply these standards, amendments to published standards from: (Cont'd)

a. Financial year beginning on/after 1 January 2018 (Cont'd):

- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration' applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

  IC Interpretation 22 provides guidance how to determine 'the date of transaction' when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

  The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

  If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

  An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

- MFRS 9 'Financial Instruments' will replace MFRS 139 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting. MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income (OCI). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

  Classification and measurement

  The classification and measurement of financial assets will depend on how these are managed (i.e. the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL). The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with MFRS 139. However, based on an assessment of financial assets performed to date and expectations around changes to balance sheet composition, the Group and the Bank expect that the overall impact of any change will not be significant.

  For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. With effect from 1 January 2017, the Group and the Bank have early applied this requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss without applying the other requirements of MFRS 9. The early adoption is applied retrospectively against the opening retained profits at the date of initial application, with no requirements to restate comparative periods. See Note 44 for details.

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)

a. Financial year beginning on/after 1 January 2018 (Cont'd):

Impairment

MFRS 9 introduces an expected credit loss (ECL) model on impairment that replaces the incurred loss impairment model used in MFRS 139. The ECL model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk, an 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'. The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. However, they do not explicitly address macro hedge accounting strategies, which are particularly important for banks. As a result, MFRS 9 includes an accounting policy choice to remain with MFRS 139 hedge accounting.

Disclosures

MFRS 9 requires more extensive disclosures especially in the area of ECL. The required disclosures will be made in the financial statements of the Group and the Bank for the financial year ended 31 December 2018.

Transitional impact

With the exception of the provisions relating to the presentation of gains and losses on financial liabilities designated at fair value, which were adopted from 1 January 2017, the requirements of MFRS 9 'Financial Instruments' will be adopted from 1 January 2018. MFRS 9 includes an accounting policy choice to continue with MFRS 139 hedge accounting, which the Group and the Bank have exercised, although the Group and the Bank will implement the revised hedge accounting disclosures required by the related amendments to MFRS 7 'Financial Instruments: Disclosures'. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The Group and the Bank do not intend to restate comparatives.

The transitioning to MFRS 9 at 1 January 2018 of the Group and the Bank is expected to result in a decrease in impairment allowances on loans, advances and financing and other financial assets arising from new impairment requirements, which will result in an increase in the Group's and the Bank's opening retained profits as of 1 January 2018.

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)

a. Financial year beginning on/after 1 January 2018 (Cont'd):

- MFRS 15 'Revenue from contracts with customers' replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

  Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

  A new five-step process is applied before revenue can be recognised:

  - Identify contracts with customers
  - Identify the separate performance obligations
  - Determine the transaction price of the contract;
  - Allocate the transaction price to each of the separate performance obligations; and
  - Recognise the revenue as each performance obligation is satisfied.

  Key provisions of the new standard are as follows:

  - Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
  - If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc.), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
  - The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
  - There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
  - As with any new standard, there are also increased disclosures.

b. 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" of the underlying asset and a lease liability reflecting future lease payments for most leases.

  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 expense recognised in the income statement.

  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.

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)

b. Financial year beginning on/after 1 January 2019 (Cont'd):

- IC Interpretation 23 'Uncertainty over Income Tax Treatments' (effective 1 January 2019) 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' (effective from 1 January 2019) 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.

- Amendments to MFRS 9 'Prepayment features with negative compensation' (effective 1 January 2019) 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' (effective from 1 January 2019) 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' (effective from 1 January 2019) 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' (effective from 1 January 2019) 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.

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)

b. Financial year beginning on/after 1 January 2019 (Cont'd):

- Amendments to MFRS 123 'Borrowing Costs' (effective from 1 January 2019) 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.

The initial application of above standards are not expected to have any material financial impacts to the current and prior year's financial statements of the Group and the Bank upon their first adoption, except for MFRS 9.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the 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 3 on the financial statements. The preparation of the financial statements in conformity with MFRSs requires management to make estimates and assumptions about future conditions. The use of available information and the application of 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 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 (see Note 5). There are no other significant areas of estimation uncertainty and critical judgments in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed above.

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

3 Significant Accounting Policies

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

(a) Basis of consolidation

The Group financial statements include the financial statements of the Bank and its subsidiaries made up to 31 December 2017.

(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)

3 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 available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(c) 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 held-for-trading 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 available-for-sale 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 3(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 held for trading, together with the related interest income and expense.

(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 income, interest expense and dividend income in respect of:
  - financial assets and financial liabilities designated at fair value through profit or loss; and
  - derivatives managed in conjunction with the above,

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

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the group 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 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 available-for-sale investments and cash flow hedging instruments which are charged or credited directly to other comprehensive income, is also charged or credited to other comprehensive income and is subsequently recognised in the profit or loss when the deferred fair value gain or loss is recognised in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(f) Financial instruments

(i) Initial recognition and measurement

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

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

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

(ii) Financial instrument categories and subsequent measurement

The Group and the Bank categorise financial assets as follows:

- loans, advances and financing (Note 3(k));
- financial investments held to maturity (Note 3(j)(i));
- financial investments available-for-sale (Note 3(j)(ii)); or
- trading assets (Note 3(i)).

The Group and the Bank classify their financial liabilities, other than financial guarantees, as measured at amortised cost or trading liabilities (See Notes 3(i), 3(p), 3(q), 3(s)).

(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.

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.

(f) Financial instruments (Cont'd)

(v) Amortised cost measurement

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

(vi) Fair value measurement

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

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

(g) 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.

(h) Sale and repurchase agreements

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

Securities purchased under commitments to re-sell (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/profit income and recognised in net interest income over the life of the agreement.

(i) 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 3(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.

(j) Financial investments

Treasury bills, debt securities and equity securities intended to be held on a continuing basis, other than those designated at fair value, are classified as available-for-sale or held-to-maturity. They are recognised on trade date when the Group and the Bank enter into contractual arrangements to purchase those instruments, and are normally derecognised when either the securities are sold or redeemed.

(i) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group and the Bank positively intend and are able to hold until maturity. These investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest/profit rate method, less any impairment losses.

(ii) Available-for-sale

Available-for-sale financial assets are initially measured at fair value plus direct and incremental transaction costs. Available-for-sale financial assets are recognised on the trade date when the group enters into contractual arrangements to purchase those instruments, and are normally derecognised when either the securities are sold or redeemed. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income in 'Available-for-sale reserve – change in fair value' until they are either sold or become impaired. When available-for-sale financial assets are sold, cumulative gains or losses previously recognised in other comprehensive income are recognised in the profit or loss as 'Disposal of financial investments available-for-sale'.

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

Available-for-sale financial assets are assessed at each balance sheet date for objective evidence of impairment. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably estimated.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(j) Financial investments (Cont'd)

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

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

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

- *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. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial reorganisation, or the disappearance of an active market for the debt security because of financial difficulties relating to the issuer.

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

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

  A significant or prolonged decline in the fair value of the 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.

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

- *Available-for-sale debt security*
  A subsequent decline in the fair value of the instrument is recognised in the profit or loss when there is objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised directly in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss to the extent of the increase in fair value.

- *Available-for-sale equity security*
  All subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised directly in other comprehensive income. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the profit or loss, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost less cumulative impairment to date of the equity security. Impairment losses recognised on the equity security are not reversed through the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(k) Loans, advances and financing

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

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 3(f)(iii) on derecognition of financial assets.

(l) Impairment of loans, advances and financing

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

The Group and Bank's allowance for impaired loans/financing are in conformity with MFRS 139.

(i) Individually assessed loans, advances and financing

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

Loans/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/financing considered as individually significant are typically to corporate and commercial customers, are for larger amounts, and are managed on an individual basis. Retail lending portfolios are generally assessed for impairment on a collective basis as the portfolios generally consist of large pools of homogeneous loans/financing.

For all loans/financing that are considered individually significant, the Group and Bank assess on a case-by-case basis at each balance sheet date to identify whether objective evidence of impairment exists based on the following criteria:

- known cash flow difficulties experienced by the borrower;
- contractual payments of either principal or interest being past due for more than 90 days;
- the probability that the borrower will enter bankruptcy or other financial realisation;
- a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest/profit or fees, where the concession is not insignificant; and
- there has been deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

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

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

For those loans/financing where objective evidence of impairment exists, impairment losses are determined considering the following factors:

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

The realisable value of security is determined based on the most recently updated market value at the time when 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 loan/financing, which includes expected future receipts of contractual interest/profit, at the loan/financing's original effective interest/profit rate or an approximation there of, and comparing the resultant present value with the loan/financing's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

(ii) Collectively assessed loans, advances and financing

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

Individually assessed loans/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 assessments. These credit risk characteristics may include country of origination, type of business involved, type of products offered, security obtained or other relevant factors. This assessment captures impairment losses that the Group and the Bank have incurred as a result of events occurring before the balance sheet date, which the Group and the Bank are not able to identify on an individual loan/financing basis, and that can be reliably estimated. When information becomes available which identifies losses on individual loans/financing within the group, those loans/financing are removed from the group and assessed individually.

The collective impairment allowance is determined after taking into account:

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

3 Significant Accounting Policies (Cont'd)

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

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

The period between a loss occurring and its identification is estimated by local management for each identified portfolio based on economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. The estimated period between a loss occurring and its identification may vary over time as these factors change.

Homogeneous groups of loans, advances and financing

Statistical methods are used to determine impairment losses for homogeneous groups of loans, advances and financing not considered individually significant. Losses in these groups of loans/financing are recorded individually when individual loans/financing are removed from the group and written off. Two methods that are used to calculate collective allowances are:

- When appropriate empirical information is available, the Group and the Bank use roll-rate methodology which employs statistical analyses of historical data and experience of delinquency and default to reliably estimate the amount of loans/financing that will eventually be written off as a result of the events occurring before the balance sheet date. Individual loans/financing are grouped using ranges past due days, and statistical analysis are made of the likelihood that loans/financing in each range will progress through the various stages of delinquency, and become irrecoverable. Additionally, individual loans/financing are segmented based on their credit characteristics as described above. Current economic conditions are also evaluated when calculating the appropriate level of allowance required to cover inherent loss. The estimated loss is the difference between the present value of expected future cash flows, discounted at the original effective interest rate of the portfolio, and the carrying amount of the portfolio.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

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

(iii) Write-off of loans, advances and financing

Refer to Note 4(b)(iv) for credit risk management on write-off of loans, advances and financing.

(iv) 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 loan/financing impairment allowance account accordingly. The write-back is recognised in the profit or loss.

(v) Renegotiated loans/financing

Loans/financing subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up to date loans/financing, once a minimum number of 12 monthly payments have been received. Loans/financing subject to collective impairment assessment whose terms have been renegotiated are segregated from other parts of the loan/financing portfolio for the purposes of collective impairment assessment, to reflect their risk profile.

Loans/financing subject to individual impairment assessment, whose terms have been renegotiated remain as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future contractual payments, and there are no other indicators of impairment. The renegotiated Loans/Financing will only be reclassified as unimpaired when restructured payment is received and observed for a minimum period of 12 months.

A loan/financing that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan/financing is substantially a different financial instrument. Any new loans that arise following derecognition events will continue to be disclosed as renegotiated loans and are assessed for impairment as above.

(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.

(m) Property and equipment (Cont'd)

(i) Land and buildings (Cont'd)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

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

Financial liabilities are recognised when the Group and the Bank enter into the contractual provisions of the arrangements with counterparties, which are generally on trade date, and initially measured at fair value, which is normally the consideration received. 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 and the multi-currency sukuk programme 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 and multi-currency sukuk programme of the Group and the Bank are recognised on an accrual basis.

(r) Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation which 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 possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group and the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

(s) 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. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

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

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

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

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

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

(i) <u>Hedge accounting</u>

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

- ***Fair value hedge***

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(t) Derivative financial instruments and hedge accounting (Cont'd)

(i) Hedge accounting (Cont'd)

- ***Cash flow hedge***

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

  The accumulated gains and losses recognised in other comprehensive income are reclassified to the profit or loss in the same periods in which the hedged item affects the profit or loss. In hedges of forecast transactions that result in recognition of a non-financial asset or a non-financial liability, previous gains and losses recognised in other comprehensive income are removed from equity and included in the initial measurement of the asset or liability.

  When a hedge relationship is discontinued, any cumulative gain or loss recognised in other comprehensive income at that time remains in equity until the forecast transaction is eventually recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the profit or loss.

(u) Financial instruments designated at fair value

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

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

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

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

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

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

(u) Financial instruments designated at fair value (Cont'd)

In both the current and prior year, financial liabilities are classified as subsequently measured at amortised cost, except for:

- financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- financial guarantee contracts and loan commitments.

(v) 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 .

(w) 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.

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.

(x) 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.

4 Financial risk management

a) Introduction and overview

All of the Group and the Bank's activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Group and the Bank 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 and the Bank's exposure to each of the above risks, the Group and the Bank's objectives, policies and processes for measuring and managing risk, and the Group and the Bank's management of capital.

Risk management framework

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

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

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

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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, 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.

A Credit and Risk Management structure under the Chief Risk Officer, who reports to the Chief Executive Officer, is in place to ensure a more coordinated management of credit risk and a more independent evaluation of credit proposals. The Chief Risk Officer, who also has 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 Risk Management Meeting, Executive Committee, Board Risk Committee and the Board, covering:

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

- well defined credit risk appetite on business with growth, maintain and shrink sectors.
- 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 and Bank's exposure to credit risk is shown in Note 4(b)(xii).

(i) Impairment assessment

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

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

(ii) Past due but not impaired loans/financing and investment debt securities

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

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

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

(iii) Loans/financing with renegotiated terms

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

Refer to Note 3(l)(v) Renegotiated loans/financing for related impairment accounting policies.

(iv) Write-off of loans, advances and financing

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

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

- under the residential and real estate business; mortgages over residential and financed properties;
- under certain Islamic specialised financing and leasing transactions (such as vehicle financing) where physical assets form the principal source of facility repayment, physical collateral is typically taken;
- in the commercial and industrial sectors, charges over business assets such as premises, stock and debtors;
- facilities provided to small and medium enterprises are commonly granted against guarantees by their owners/directors;
- guarantees from third parties can arise where facilities are extended without the benefit of any alternative form of security, e.g. where the Group and the Bank 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 and the Bank's securities financing business (securities lending and borrowing or repos and reverse repos).

(v) Collateral held as security

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

The 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 2017 are 68.3% (2016: 68.9%) and 75.5% (2016: 72.5%) 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.

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

(vi) Concentration of credit risk

The Group and the Bank monitor concentration of credit risk by sector and geographical location. The analysis of concentration of credit risk from loans, advances and financing to customers is shown in Note 10(v) and 10(vii). The analysis of concentration of credit risk from the Group's and the Bank's financial assets is shown in Note 4(b)(xiii).

(vii) Financial assets held-for-trading

As at 31 December 2017, the Group and Bank held financial assets held-for-trading of RM1,989 million (2016: RM2,266 million) and RM1,989 million (2016: RM2,266 million) respectively. An analysis of the credit quality of the maximum credit exposure, based on the rating agency Standard & Poor's, is as disclosed in Note 8 to the financial statements.

(viii) 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. It is common, and the Group's preferred practice, for the parties to execute a Credit Support Annex (CSA) in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties to mitigate the counterparty risk inherent in outstanding positions.

(ix) Stress testing

The Group and the Bank's stress testing programme examines the sensitivities and resilience of their capital plans and unplanned demand for regulatory capital under a number of scenarios and ensures that top and emerging risks are appropriately considered. These scenarios include, but are not limited to, adverse macroeconomic events, failures at country, sector and counterparty levels, geopolitical occurrences and a variety of projected major operational risk events. Scenarios are translated into financial impacts to access the sensitivities and resilience of the Group and the Bank's capital demand. Action plans are developed to mitigate identified risks. The Group and the Bank's Risk Committee are informed and consulted on the group's stress testing activities, as appropriate.

Reverse stress testing is run annually on both Group and the Bank and, where required, subsidiary entity bases. Reverse stress testing is used to strengthen the Group and the Bank's resilience by identifying potential stresses and vulnerabilities which the group might face and helping to inform early-warning triggers, management actions and contingency plans designed to mitigate their effect, were they to occur.

(x) 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)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(x) 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
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**
2016						
Group						
Securities purchased under resale agreements	6,162,230	-	6,162,230	6,162,230	-	-
Derivative financial assets	2,988,954	-	2,988,954	-	1,079,045	1,909,909
Derivative financial liabilities	3,127,028	-	3,127,028	-	999,109	2,127,919
Bank						
Securities purchased under resale agreements	6,162,230	-	6,162,230	6,162,230	-	-
Derivative financial assets	3,089,446	-	3,089,446	-	1,429,045	1,660,401
Derivative financial liabilities	3,132,513	-	3,132,513	-	999,109	2,133,404

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xi) Exposure to credit risk

Group	31 Dec 2017 Loans, advances and financing to customers RM'000	31 Dec 2017 Placement with banks [1] RM'000
Carrying amount	51,979,654	12,988,705
Assets at amortised cost		
Individually impaired:		
Gross amount	1,093,678	-
Allowance for impairment	(295,539)	-
Carrying amount	798,139	-
Past due but not impaired:		
Carrying amount	3,169,344	-
Past due comprises:		
up to 29 days	2,464,506	-
30 - 59 days	497,849	-
60 - 89 days	206,989	-
	3,169,344	-
Neither past due nor impaired:		
Strong	28,410,436	12,988,705
Medium-good	10,949,706	-
Medium-satisfactory	8,368,777	-
Substandard	802,088	-
Carrying amount	48,531,007	12,988,705
of which includes accounts with renegotiated terms	*323,243*	-
Collective allowance for impairment	(518,836)	-
Carrying amount-amortised cost	51,979,654	12,988,705

	31 Dec 2017 Derivatives Financial Assets RM'000	Financial Assets held-for-trading RM'000	Financial investments available-for-sale [2] RM'000	Other Financial Assets RM'000
Carrying amount	2,045,225	1,988,719	9,602,998	190,982
Neither past due nor impaired:				
Strong	1,483,419	1,860,044	9,523,576	190,982
Medium-good	489,375	99	-	-
Medium-satisfactory	56,036	128,576	79,422	-
Sub-standard	16,395	-	-	-
Carrying amount[3]	2,045,225	1,988,719	9,602,998	190,982
Carrying amount-fair value	2,045,225	1,988,719	9,602,998	190,982

In addition to the above, the Group had entered into lending commitments and contingencies of RM56,537.9 million. The Group had also issued financial guarantee contracts for which the maximum amount payable by the Group, assuming all guarantees are called on, is RM12,381.3 million.

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

[2] Financial investments available-for-sale excludes equity securities.

[3] No available-for-sale accounts were renegotiated during the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xi) Exposure to credit risk (Cont'd)

Group	31 Dec 2016 Loans, advances and financing to customers [1] RM'000	31 Dec 2016 Placement with banks [1] RM'000
Carrying amount	46,894,834	24,827,744
Assets at amortised cost		
Individually impaired:		
Gross amount	1,026,953	-
Allowance for impairment	(230,040)	-
Carrying amount	796,913	-
Past due but not impaired:		
Carrying amount	2,965,446	-
Past due comprises:		
up to 29 days	2,191,550	-
30 - 59 days	558,037	-
60 - 89 days	215,859	-
	2,965,446	-
Neither past due nor impaired:		
Strong	23,789,769	24,827,744
Medium-good	10,356,530	-
Medium-satisfactory	8,626,386	-
Substandard	829,355	-
Carrying amount	43,602,040	24,827,744
of which includes accounts with renegotiated terms	*168,722*	-
Collective allowance for impairment	(469,565)	-
Carrying amount-amortised cost	46,894,834	24,827,744

	31 Dec 2016 Derivatives Financial Assets RM'000	Financial Assets held-for-trading RM'000	Financial investments available-for-sale [2] RM'000	Other Financial Assets RM'000
Carrying amount	2,988,954	2,266,452	6,390,485	184,772
Neither past due nor impaired:				
Strong	1,808,957	2,168,652	6,390,203	184,772
Medium-good	1,034,962	97,800	-	-
Medium-satisfactory	123,604	-	282	-
Sub-standard	21,431	-	-	-
Carrying amount[3]	2,988,954	2,266,452	6,390,485	184,772
Carrying amount-fair value	2,988,954	2,266,452	6,390,485	184,772

In addition to the above, the Group had entered into lending commitments and contingencies of RM53,073.2 million. The Group had also issued financial guarantee contracts for which the maximum amount payable by the Group, assuming all guarantees are called on, is RM12,124.3 million.

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

[2] Financial investments available-for-sale excludes equity securities.

[3] No available-for-sale accounts were renegotiated during the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xi) Exposure to credit risk (Cont'd)

Bank	31 Dec 2017 Loans, advances and financing to customers RM'000	31 Dec 2017 Placement with banks [1] RM'000
Carrying amount	**38,595,851**	**14,547,481**
Assets at amortised cost		
Individually impaired:		
Gross amount	**711,629**	**-**
Allowance for impairment	**(180,640)**	**-**
Carrying amount	**530,989**	**-**
Past due but not impaired:		
Carrying amount	**2,304,721**	**-**
Past due comprises:		
up to 29 days	**1,813,809**	**-**
30 - 59 days	**352,701**	**-**
60 - 89 days	**138,211**	**-**
	2,304,721	**-**
Neither past due nor individually impaired:		
Strong	**21,736,780**	**14,547,481**
Medium-good	**7,403,777**	**-**
Medium-satisfactory	**6,465,609**	**-**
Substandard	**431,903**	**-**
Carrying amount	**36,038,069**	**14,547,481**
of which includes accounts with renegotiated terms	***247,222***	**-**
Collective allowance for impairment	**(277,928)**	**-**
Carrying amount-amortised cost	**38,595,851**	**14,547,481**

	31 Dec 2017 Derivatives Financial Assets RM'000	Financial Assets held-for-trading RM'000	Financial investments available-for-sale [2] RM'000	Other Financial Assets RM'000
Carrying amount	**2,045,005**	**1,988,719**	**7,381,954**	**349,089**
Neither past due nor impaired:				
Strong	**1,640,264**	**1,860,044**	**7,352,341**	**349,089**
Medium-good	**342,446**	**99**	**-**	**-**
Medium-satisfactory	**46,991**	**128,576**	**29,613**	**-**
Sub-standard	**15,304**	**-**	**-**	**-**
Carrying amount[3]	**2,045,005**	**1,988,719**	**7,381,954**	**349,089**
Carrying amount-fair value	**2,045,005**	**1,988,719**	**7,381,954**	**349,089**

In addition to the above, the Bank had entered into lending commitments and contingencies of RM45,869.6 million. The Bank had also issued financial guarantee contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is RM10,840.5 million.

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

[2] Financial investments available-for-sale excludes equity securities.

[3] No available-for-sale accounts were renegotiated during the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xi) Exposure to credit risk (Cont'd)

Bank	31 Dec 2016 Loans, advances and financing to customers RM'000	31 Dec 2016 Placement with banks [1] RM'000
Carrying amount	35,151,571	25,037,604
Assets at amortised cost		
Individually impaired:		
Gross amount	723,427	-
Allowance for impairment	(167,283)	-
Carrying amount	556,144	-
Past due but not impaired:		
Carrying amount	2,130,805	-
Past due comprises:		
up to 29 days	1,584,053	-
30 - 59 days	400,596	-
60 - 89 days	146,156	-
	2,130,805	-
Neither past due nor individually impaired:		
Strong	18,112,493	25,037,604
Medium-good	7,854,669	-
Medium-satisfactory	6,294,525	-
Substandard	472,485	-
Carrying amount	32,734,172	25,037,604
of which includes accounts with renegotiated terms	*128,738*	-
Collective allowance for impairment	(269,550)	-
Carrying amount-amortised cost	35,151,571	25,037,604

	31 Dec 2016 Derivatives Financial Assets RM'000	Financial Assets held-for-trading RM'000	Financial investments available-for-sale [2] RM'000	Other Financial Assets RM'000
Carrying amount	3,089,446	2,265,964	5,021,911	153,768
Neither past due nor impaired:				
Strong	2,170,580	2,168,164	5,021,629	153,768
Medium-good	789,949	97,800	-	-
Medium-satisfactory	107,486	-	282	-
Sub-standard	21,431	-	-	-
Carrying amount[3]	3,089,446	2,265,964	5,021,911	153,768
Carrying amount-fair value	3,089,446	2,265,964	5,021,911	153,768

In addition to the above, the Bank had entered into lending commitments and contingencies of RM43,355.2 million. The Bank had also issued financial guarantee contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is RM10,364.4 million.

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

[2] Financial investments available-for-sale excludes equity securities.

[3] No available-for-sale accounts were renegotiated during the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xi) Exposure to credit risk (Cont'd)

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

Credit quality of the Group's debt securities and other bills	**External Credit Rating[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 Group's corporate lending/derivative financial assets/ securities purchased under resale agreements/ deposits and placements with banks and other financial institutions	**Internal Credit Rating**
Strong	CRR1 - CRR2
Good	CRR3
Satisfactory	CRR4 - CRR5
Sub-standard	CRR6 - CRR8
Impaired	CRR9 - CRR10

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

[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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xii) Concentration by sector and by location [1]

Group	Placement with banks [2] RM'000	Derivatives Financial Assets RM'000	Financial Assets held-for-trading RM'000	Financial investments available-for-sale [3] RM'000	Other Financial Assets RM'000
	31 Dec 2017				
Carrying amount	12,988,705	2,045,225	1,988,719	9,602,998	190,982
By Sector					
Agricultural, hunting, forestry and fishing	-	477	-	-	-
Mining and quarrying	-	3,423	-	-	-
Manufacturing	-	102,997	-	-	-
Electricity, gas and water	-	9,554	16,084	-	-
Construction	-	11,583	78,889	-	-
Real estate	-	81,443	-	-	-
Wholesale & retail trade, restaurants & hotels	-	112,790	-	-	-
Transport, storage and communication	-	22,241	-	-	-
Finance, insurance and business services	12,988,705	1,617,821	37,407	659,983	-
Household-retail	-	93	195	-	-
Central banks and government related	-	37,943	1,852,959	8,942,545	-
Others	-	44,860	3,185	470	190,982
	12,988,705	2,045,225	1,988,719	9,602,998	190,982
By geographical location					
Within Malaysia	12,559,468	1,029,303	1,978,445	9,240,908	190,982
Outside Malaysia	429,237	1,015,922	10,274	362,090	-
	12,988,705	2,045,225	1,988,719	9,602,998	190,982

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

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

[3] Financial investments available-for-sale excludes equity securities.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xii) Concentration by sector and by location [1] (Cont'd)

Group	31 Dec 2016 Placement with banks [2] RM'000	Derivatives Financial Assets RM'000	Financial Assets held-for-trading RM'000	Financial investments available-for-sale [3] RM'000	Other Financial Assets RM'000
Carrying amount	24,827,744	2,988,954	2,266,452	6,390,485	184,772
By Sector					
Agricultural, hunting, forestry and fishing	-	2,375	-	-	-
Mining and quarrying	-	4,601	-	-	-
Manufacturing	-	244,872	-	-	-
Electricity, gas and water	-	27,653	2,776	-	-
Construction	-	10,946	699	-	-
Real estate	-	42,806	-	-	-
Wholesale & retail trade, restaurants					-
& hotels	-	144,547	-	-	-
Transport, storage and communication	-	23,961	-	-	-
Finance, insurance and business services	24,827,744	2,244,922	205,839	414,397	-
Household-retail	-	1,113	1,252	-	-
Central banks and government related	-	-	2,018,197	5,975,617	-
Others	-	241,158	37,689	471	184,772
	24,827,744	2,988,954	2,266,452	6,390,485	184,772
By geographical location					
Within Malaysia	23,114,016	2,143,615	2,256,274	5,718,744	184,772
Outside Malaysia	1,713,728	845,339	10,178	671,741	-
	24,827,744	2,988,954	2,266,452	6,390,485	184,772

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

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

[3] Financial investments available-for-sale excludes equity securities.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xii) Concentration by sector and by location [1] (Cont'd)

Bank	Placement with banks [2] RM'000	Derivatives Financial Assets RM'000	Financial Assets held-for-trading RM'000	Financial investments available-for-sale [3] RM'000	Other Financial Assets RM'000
	31 Dec 2017				
Carrying amount	14,547,481	2,045,005	1,988,719	7,381,954	349,089
By Sector					
Agricultural, hunting, forestry and fishing	-	477	-	-	-
Mining and quarrying	-	3,423	-	-	-
Manufacturing	-	97,310	-	-	-
Electricity, gas and water	-	9,554	16,084	-	-
Construction	-	11,582	78,889	-	-
Real estate	-	79,598	-	-	-
Wholesale & retail trade, restaurants & hotels	-	111,052	-	-	-
Transport, storage and communication	-	21,374	-	-	-
Finance, insurance and business services	14,547,481	1,632,388	37,407	510,900	-
Household-retail	-	93	195	-	-
Central banks and government related	-	37,943	1,852,959	6,870,584	-
Others	-	40,211	3,185	470	349,089
	14,547,481	2,045,005	1,988,719	7,381,954	349,089
By geographical location					
Within Malaysia	14,232,223	1,176,012	1,978,445	7,019,864	349,089
Outside Malaysia	315,258	868,993	10,274	362,090	-
	14,547,481	2,045,005	1,988,719	7,381,954	349,089

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

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

[3] Financial investments available-for-sale excludes equity securities.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xii) Concentration by sector and by location [1] (Cont'd)

Bank	31 Dec 2016				
	Placement with banks [2] RM'000	Derivatives Financial Assets RM'000	Financial Assets held-for-trading RM'000	Financial investments available-for-sale [3] RM'000	Other Financial Assets RM'000
Carrying amount	25,037,604	3,089,446	2,265,964	5,021,911	153,768
By Sector					
Agricultural, hunting, forestry and fishing	-	2,294	-	-	-
Mining and quarrying	-	4,475	-	-	-
Manufacturing	-	232,251	-	-	-
Electricity, gas and water	-	27,653	2,776	-	-
Construction	-	10,945	699	-	-
Real estate	-	40,114	-	-	-
Wholesale & retail trade, restaurants & hotels	-	144,468	-	-	-
Transport, storage and communication	-	23,665	-	-	-
Finance, insurance and business services	25,037,604	2,472,244	205,839	414,397	-
Household-retail	-	1,113	1,252	-	-
Central banks and government related	-	-	2,017,709	4,607,043	-
Others	-	130,224	37,689	471	153,768
	25,037,604	3,089,446	2,265,964	5,021,911	153,768
By geographical location					
Within Malaysia	23,405,534	2,488,958	2,255,786	4,350,170	153,768
Outside Malaysia	1,632,070	600,488	10,178	671,741	-
	25,037,604	3,089,446	2,265,964	5,021,911	153,768

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

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

[3] Financial investments available-for-sale excludes equity securities.

c) Liquidity and funding risk management

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

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

Current accounts and savings deposits payable on demand or at short notice form a significant part of HSBC 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 and the Bank's capital strength and liquidity, and on competitive and transparent pricing. In aggregate, the Group and the Bank are net liquidity providers to the interbank market, placing significantly more funds with other banks than it borrows.

The management of liquidity and funding is primarily carried out in accordance with the BNM's Liquidity Coverage Ratio Framework; and practices and limits set by Asset, Liability and Capital Management (ALCO) and regional Head Office. These limits vary to take account of the depth and liquidity of the local market in which the Group and the Bank operate. The Group and the Bank maintain strong liquidity positions and manage the liquidity profile of the assets, liabilities and commitments to ensure that cash flows are appropriately balanced and all obligations are met when due.

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

- 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.

On 1 January 2016, the Group and the Bank implemented a new liquidity and funding risk framework (LFRF). It 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.

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;
- minimum LCR requirement depending on ILR categorisation;
- minimum NSFR requirement depending on ILR categorisation;
- legal entity depositor concentration limit;

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

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

- 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 by principal operating entity;
- minimum LCR requirement by currency;
- intraday liquidity; and
- forward-looking funding assessments.

The new internal LFRF and the risk tolerance limits were approved by the Board on the basis of recommendations made by the Group Risk Committee.

4 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 Dec 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)

4 Financial risk management (Cont'd)

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

i) Liquidity risk (Cont'd)

Group 31 Dec 2016	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	16,804,114	-	-	-	-	-	-	16,804,114
Securities purchased under resale agreements	2,292,939	3,869,291	-	-	-	-	-	6,162,230
Deposits and placements with banks and other financial institutions	-	1,826,400	35,000	-	-	-	-	1,861,400
Financial assets held-for-trading	-	-	-	-	-	-	2,266,452	2,266,452
Financial investments available-for-sale	-	524,259	371,608	4,552,489	942,129	167,559	-	6,558,044
Loans, advances and financing	10,100,130	5,485,901	2,284,779	5,853,218	23,170,806	-	-	46,894,834
Derivative financial assets	-	-	-	5,231	-	-	2,983,723	2,988,954
Others	22,970	12,305	7,349	50,002	18,761	1,769,078	8,082	1,888,547
Total Assets	29,220,153	11,718,156	2,698,736	10,460,940	24,131,696	1,936,637	5,258,257	85,424,575
LIABILITIES AND EQUITY								
Deposits from customers	42,661,001	7,002,951	7,866,780	180,802	-	-	-	57,711,534
Deposits and placements from banks and other financial institutions	5,864,211	31,752	347	246,730	403,740	24,413	-	6,571,193
Bills payable	326,305	-	-	-	-	-	-	326,305
Multi-Currency Sukuk Programme	-	-	500,000	1,256,001	-	-	-	1,756,001
Subordinated liabilities	-	-	500,000	2,559	1,146,265	-	-	1,648,824
Derivative financial liabilities	-	-	-	5,894	2,563	-	3,118,571	3,127,028
Others	92,281	60,683	106,656	21,751	7,531	1,136,538	4,128,886	5,554,326
Total Liabilities	48,943,798	7,095,386	8,973,783	1,713,737	1,560,099	1,160,951	7,247,457	76,695,211
Equity	-	-	-	-	-	8,729,364	-	8,729,364
Total Liabilities and Equity	48,943,798	7,095,386	8,973,783	1,713,737	1,560,099	9,890,315	7,247,457	85,424,575
Net maturity mismatches	(19,723,645)	4,622,770	(6,275,047)	8,747,203	22,571,597	(7,953,678)	(1,989,200)	-
Off-balance sheet liabilities	57,343,591	19,279,244	40,796,933	49,888,715	5,882,526	-	-	173,191,009

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

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

i) Liquidity risk (Cont'd)

Bank 31 Dec 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)

4 Financial risk management (Cont'd)

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

i) Liquidity risk (Cont'd)

Bank 31 Dec 2016	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	14,999,888	-	-	-	-	-	-	14,999,888
Securities purchased under resale agreements	2,292,939	3,869,291	-	-	-	-	-	6,162,230
Deposits and placements with banks and other financial institutions	-	1,913,230	1,283,600	32,391	646,265	-	-	3,875,486
Financial assets held-for-trading	-	-	-	-	-	-	2,265,964	2,265,964
Financial investments available-for-sale	-	524,259	191,384	3,384,194	922,074	167,559	-	5,189,470
Loans, advances and financing	7,939,639	3,745,410	1,869,206	4,146,696	17,450,620	-	-	35,151,571
Derivative financial assets	-	-	-	5,231	-	-	3,084,215	3,089,446
Others	59,357	12,338	7,344	41,183	18,570	2,053,783	8,082	2,200,657
Total Assets	25,291,823	10,064,528	3,351,534	7,609,695	19,037,529	2,221,342	5,358,261	72,934,712
LIABILITIES AND EQUITY								
Deposits from customers	36,960,147	5,235,614	6,641,020	148,231	-	-	-	48,985,012
Deposits and placements from banks and other financial institutions	5,860,208	31,752	347	246,730	403,740	-	-	6,542,777
Bills payable	302,673	-	-	-	-	-	-	302,673
Subordinated liabilities	-	-	500,000	2,559	1,146,265	-	-	1,648,824
Derivative financial liabilities	-	-	-	5,894	2,563	-	3,124,056	3,132,513
Others	123,829	48,432	84,707	7,599	7,532	1,023,124	3,159,477	4,454,700
Total Liabilities	43,246,857	5,315,798	7,226,074	411,013	1,560,100	1,023,124	6,283,533	65,066,499
Equity	-	-	-	-	-	7,868,213	-	7,868,213
Total Liabilities and Equity	43,246,857	5,315,798	7,226,074	411,013	1,560,100	8,891,337	6,283,533	72,934,712
Net maturity mismatches	(17,955,034)	4,748,730	(3,874,540)	7,198,682	17,477,429	(6,669,995)	(925,272)	-
Off-balance sheet liabilities	50,208,593	18,341,859	40,425,517	51,238,878	5,872,582	-	-	166,087,429

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 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 Dec 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**

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 Dec 2016						
Non-derivative liabilities						
Deposits from customers	32,937,738	16,864,969	8,022,490	193,894	-	58,019,091
Deposits and placements of banks and other financial institutions	-	5,936,081	25,540	257,716	434,424	6,653,761
Bills payable	326,305	-	-	-	-	326,305
Other liabilities	170,492	627,327	3,458,717	5,215,966	107,495	9,579,997
Multi Currency Sukuk Programme	-	19,761	531,679	1,344,921	-	1,896,361
Subordinated liabilities	-	4,881	548,912	182,411	1,229,454	1,965,658
Loans and other credit-related commitments	34,322,352	1,242,388	5,242,627	141,582	-	40,948,949
Financial guarantees and similar contracts	2,314,251	2,597,674	2,890,856	3,303,630	1,017,857	12,124,268
	70,071,138	27,293,081	20,720,821	10,640,120	2,789,230	131,514,390
Derivative liabilities						
Gross settled derivatives						
- Inflow	-	(2,064,725)	(4,572,028)	(5,811,973)	(504,954)	(12,953,680)
- Outflow	-	2,633,214	5,621,176	6,836,929	620,636	15,711,955
Net settled derivatives	-	25,514	80,957	92,278	(45,169)	153,580

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial 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 Dec 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**

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 Dec 2016						
Non-derivative liabilities						
Deposits from customers	29,348,454	12,937,043	6,785,203	165,425	-	49,236,125
Deposits and placements of banks and other financial institutions	-	5,903,155	349	254,231	434,424	6,592,159
Bills payable	302,673	-	-	-	-	302,673
Other liabilities	100,626	596,656	2,498,433	3,994,960	23,942	7,214,617
Subordinated liabilities	-	4,881	548,912	182,411	1,229,454	1,965,658
Loans and other credit-related commitments	27,224,759	918,829	4,688,717	138,447	-	32,970,752
Financial guarantees and similar contracts	2,203,015	1,872,836	2,362,952	2,917,717	1,007,913	10,364,433
	59,179,527	22,233,400	16,884,566	7,653,191	2,695,733	108,646,417
Derivative liabilities						
Gross settled derivatives						
- Inflow	-	(2,143,810)	(4,558,008)	(5,811,973)	(504,954)	(13,018,745)
- Outflow	-	2,711,746	5,605,784	6,839,474	620,636	15,777,640
Net settled derivatives	-	18,669	42,175	110,594	(45,169)	126,269

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 and the Bank's income or the value of their portfolios.

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

There were no significant changes to the Group and the Bank's policies and practices for the management of market risk in 2017.

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 and the Bank's retail and commercial banking assets and liabilities, and financial investments designated as available-for-sale and held to maturity.

The management of market risk is principally undertaken using risk limit mandates approved by HSBC's Regional Wholesale and Global Market Risk Management (WMR), an independent unit which develops HSBC Group's market risk management policies and measurement techniques. Market risks which arise on each product are transferred to 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 being the principal factor in determining the level of limits set. The Group and the Bank have an independent product control function that is responsible for measuring market risk exposures in accordance with the policies defined by WMR. Positions are monitored daily and excesses against the prescribed limits are reported immediately to local Senior Management and WMR. The nature of the hedging and risk mitigation strategies performed across the group corresponds 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.

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

(i) Value at risk (VAR)

VAR is a technique that estimates the potential losses 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 capitalises those exposures. Where there is no approved internal model, the group uses the appropriate local rules to capitalise exposures. The VAR models used by the Group and the Bank are predominantly based on historical simulation.

These models derive plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates such as interest rates and foreign exchange rates.

The models also incorporate the effect of option features on the underlying exposures. The historical simulation models used by the Group and the Bank incorporate the following features:

- 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

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

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 the actual daily profit and loss results, adjusted to remove non-modelled items such as fees and commissions, against the corresponding VAR numbers. Statistically, the Group and the Bank would expect to see losses in excess of VAR only 1 per cent of the time over a one-year period. The actual number of excesses over this period can therefore be used to gauge how well the models are performing.

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

HSBC Bank Malaysia Bhd (RM'000)	**At 31 Dec 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**
	At 31 Dec 2016	Average	Maximum	Minimum
Foreign currency risk	695	470	2,297	66
Interest rate risk	5,906	6,637	11,208	3,360
Credit spread risk	218	168	1,121	38
Overall	5,547	6,426	11,777	3,027

HSBC Amanah Malaysia Berhad (RM'000)	**At 31 Dec 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**
	At 31 Dec 2016	Average	Maximum	Minimum
Foreign currency risk	61	44	248	8
Profit rate risk	294	487	673	401
Credit spread risk	-	2	8	-
Overall	311	491	685	35

d) Market risk management (Cont'd)

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

(ii) 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). 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.

(iii) 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-17		31-Dec-16	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**36,272**	**(83,246)**	120,794	(175,006)
USD	**22,261**	**(23,086)**	2,181	(14,385)
Others	**1,485**	**(13,783)**	761	(14,172)
	60,018	**(120,115)**	123,736	(203,563)

	Bank (RM'000)			
	31-Dec-17		31-Dec-16	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**66,069**	**(101,520)**	143,505	(187,496)
USD	**13,799**	**(13,120)**	6,948	(16,589)
Others	**1,917**	**(13,288)**	1,243	(14,046)
	81,785	**(127,928)**	151,696	(218,131)

The increase or decline in economic value for upward and downward rate shocks for measuring interest rate risk/rate of return risk in the banking book are as follows:

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

	Group (RM'000)			
	31-Dec-17		31-Dec-16	
Basis point parallel shift in yield curve	***+200bps***	***-200bps***	*+200bps*	*-200bps*
RM	**55,241**	**(55,343)**	173,566	(224,962)
USD	**42,277**	**(55,061)**	(4,449)	(13,505)
Others	**135,404**	**(116,274)**	90,104	(54,032)
	232,922	**(226,678)**	259,221	(292,499)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

(iii) Sensitivity of projected Net Interest/Finance Income (Cont'd)

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

	Bank (RM'000)			
	31-Dec-17		31-Dec-16	
Basis point parallel shift in yield curve	***+200bps***	***-200bps***	*+200bps*	*-200bps*
RM	**159,861**	**(174,482)**	352,701	(426,058)
USD	**42,645**	**(53,329)**	26,575	(37,268)
Others	**116,808**	**(96,523)**	87,260	(53,182)
	319,314	**(324,334)**	466,536	(516,508)

(iv) 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-17		31-Dec-16	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**(155,455)**	**155,455**	(104,004)	104,004
USD	**(10,549)**	**10,549**	(11,996)	11,996
CNY	**(156)**	**156**	-	-
	(166,160)	**166,160**	(116,000)	116,000

	Bank (RM'000)			
	31-Dec-17		31-Dec-16	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**(120,067)**	**120,067**	(76,958)	76,958
USD	**(10,549)**	**10,549**	(11,996)	11,996
CNY	**(156)**	**156**	-	-
	(130,772)	**130,772**	(88,954)	88,954

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 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.

Group 31 Dec 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)

4 Financial risk management (Cont’d)

d) Market risk management (Cont’d)

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

Group 31 Dec 2016	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	16,474,343	-	-	-	-	329,771	-	16,804,114	2.47
Securities purchased under resale agreements	2,292,939	3,869,291	-	-	-	-	-	6,162,230	3.08
Deposits and placements with banks and other financial institutions	-	1,826,400	35,000	-	-	-	-	1,861,400	2.54
Financial assets held-for-trading	-	-	-	-	-	-	2,266,452	2,266,452	3.15
Financial investments available-for-sale	-	524,259	371,608	4,552,489	942,129	167,559	-	6,558,044	3.42
Loans, advances and financing									
- performing	13,115,559	31,316,363	787,816	1,073,227	274,521	-	-	46,567,486	4.77
- impaired [1]	-	-	-	-	-	796,913	-	796,913	-
- collective allowance	-	-	-	-	-	(469,565)	-	(469,565)	-
Derivative financial assets	-	-	-	5,231	-	-	2,983,723	2,988,954	-
Other assets	-	-	-	-	-	184,772	-	184,772	-
Total Financial Assets	31,882,841	37,536,313	1,194,424	5,630,947	1,216,650	1,009,450	5,250,175	83,720,800	
LIABILITIES									
Deposits from customers	31,349,045	7,002,951	7,866,780	180,802	-	11,311,956	-	57,711,534	1.92
Deposits and placements from banks and other financial institutions	5,864,211	31,752	347	246,730	403,740	24,413	-	6,571,193	1.32
Bills payable	-	-	-	-	-	326,305	-	326,305	-
Multi-Currency Sukuk Programme	-	-	500,000	1,256,001	-	-	-	1,756,001	3.95
Subordinated liabilities	-	-	500,000	2,559	1,146,265	-	-	1,648,824	3.58
Derivative financial liabilities	-	-	-	5,894	2,563	-	3,118,571	3,127,028	-
Other liabilities	-	-	-	-	-	442,284	4,094,973	4,537,257	3.07
Total Financial Liabilities	37,213,256	7,034,703	8,867,127	1,691,986	1,552,568	12,104,958	7,213,544	75,678,142	
Total interest/profit sensitivity gap	(5,330,415)	30,501,610	(7,672,703)	3,938,961	(335,918)	(11,095,508)	(1,963,369)	8,042,658	

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

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

Bank 31 Dec 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)

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

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

Bank 31 Dec 2016	**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	14,778,050	-	-	-	-	221,838	-	14,999,888	2.35
Securities purchased under resale agreements	2,292,939	3,869,291	-	-	-	-	-	6,162,230	3.08
Deposits and placements with banks and other financial institutions	-	1,913,230	1,283,600	32,391	646,265	-	-	3,875,486	2.54
Financial assets held-for-trading	-	-	-	-	-	-	2,265,964	2,265,964	3.15
Financial investments available-for-sale	-	524,259	191,384	3,384,194	922,074	167,559	-	5,189,470	3.40
Loans, advances and financing									
- performing	10,290,853	23,619,330	642,435	259,360	52,999	-	-	34,864,977	4.60
- impaired [1]	-	-	-	-	-	556,144	-	556,144	-
- collective allowance	-	-	-	-	-	(269,550)	-	(269,550)	-
Derivative financial assets	-	-	-	5,231	-	-	3,084,215	3,089,446	-
Other assets	-	-	-	-	-	153,768	-	153,768	-
Total Financial Assets	27,361,842	29,926,110	2,117,419	3,681,176	1,621,338	829,759	5,350,179	70,887,823	
LIABILITIES									
Deposits from customers	26,241,963	5,235,614	6,641,020	148,231	-	10,718,184	-	48,985,012	1.82
Deposits and placements from banks and other financial institutions	5,860,208	31,752	347	246,730	403,740	-	-	6,542,777	0.76
Bills payable	-	-	-	-	-	302,673	-	302,673	-
Subordinated liabilities	-	-	500,000	2,559	1,146,265	-	-	1,648,824	3.87
Derivative financial liabilities	-	-	-	5,894	2,563	-	3,124,056	3,132,513	-
Other liabilities	-	-	-	-	-	293,168	3,125,564	3,418,732	-
Total Financial Liabilities	32,102,171	5,267,366	7,141,367	403,414	1,552,568	11,314,025	6,249,620	64,030,531	
Total interest sensitivity gap	(4,740,329)	24,658,744	(5,023,948)	3,277,762	68,770	(10,484,266)	(899,441)	6,857,292	

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

(vi) Foreign exchange risk

Foreign exchange risk arises as a result of movements in the relative value of currencies. In addition to VAR and stress testing, the Group and the Bank 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-17		31-Dec-16	
Appreciation/depreciation	***+1%***	***-1%***	*+1%*	*-1%*
Impact to profit after income tax expense	**2,743**	**(2,743)**	(376)	376

	Bank (RM'000)			
	31-Dec-17		31-Dec-16	
Appreciation/depreciation	***+1%***	***-1%***	*+1%*	*-1%*
Impact to profit after income tax expense	**2,717**	**(2,717)**	(347)	347

Change in foreign exchange rate has no significant impact to other comprehensive income for the financial year ended 31 December 2017 and 31 December 2016.

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.

(vii) Specific issuer risk

Specific issuer (credit spread) risk arises from a change in the value of debt instruments due to a perceived change in the credit quality of the issuer or underlying assets. As well as VAR and stress testing, the Group and the Bank 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.

(viii) Equity risk

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

e) Operational risk management

Operational risk is the risk to achieving the Group 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 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 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 and the Bank's risk culture and better embed the use of ORMF were further implemented in 2017. 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 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 pace to mitigate these risks.
- The second line of defence sets the policy and guidelines for managing the risks and provides advice, guidance and challenge to 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.

4 Financial risk management (Cont'd)

e) Operational risk management (Cont'd)

(iii) Exposures

The Group and the Bank continues to strengthen those controls that manage the Group'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.

(iv) Risk and Control Assessment

Risk and Control assessment (RCA) process facilitates the assessment of risk and the associated control environment. RCAs are required for all material operational risks faced by the Group and the Bank. The materiality of each risk is assessed to determine the maximum plausible impact on its business over the next 12 months. The supporting control environment is also assessed for its effectiveness in mitigating the risk. The residual risk, which takes into consideration the extent to which the control environment effectively mitigates that risk, is then rated to determine whether further management actions are required. The Risk Prioritization matrix is used to rate operational risks.

The RCA process provides the Group and the Bank with a forward looking view of operational risk across all levels of their organisational structure to help determine proactively whether operational risk are effectively controlled.

(v) Control Management

The Control Management process, part of the RCA, seeks to ensure that the control environment delivers the required level of risk mitigation on an ongoing basis. Control Management directs monitoring effort to those controls mitigating the Group and the Bank's most material risks.

An Operational Risk Control Library has been established to provide business and functional managers with a list of controls recommended by the subject matter experts i.e. risk stewards for each operational risk type. The Control library supports consistency in control categorisation to enable effective control management, monitoring, remediation and identification of thematic issues.

(vi) Control Reporting

All operational risk controls and associated risks, RCAs, issues and actions, operational risk events and control monitoring are recorded in HELIOs, the HSBC Operational Risk System of record. This central repository provides single version of truth and forms the basis of operational risk reporting to governance forums and management.

f) Capital management

The Group 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 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 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 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 2017.

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances (excluding collective impairment allowances attributable to loans/financing classified as impaired), regulatory reserve, and the element of the fair value reserve relating to revaluation of property.

(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.

5 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 3 to the financial statements.

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

a) Impairment of loans, advances and financing

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

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes 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)

5 Use of estimates and judgments (Cont'd)

b) Fair value of financial instruments carried at fair value

The accounting policies which determine the classification of financial instruments and the use of assumptions and estimation in valuing them are described in Note 3(f)(vi) to the financial statements. The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, in cases where the Group and the Bank 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 3(f)(iv) to the financial statements.

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

	Group			
	Level 1	**Level 2**	**Level 3**	**Total**
2017	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial Assets Held-for-Trading (Note 8)	**1,806,529**	**182,190**	**-**	**1,988,719**
Financial Investments Available-for-Sale (Note 9)	**7,862,578**	**1,740,420**	**177,407**	**9,780,405**
Derivative financial assets (Note 39)	**4,186**	**2,036,335**	**4,704**	**2,045,225**
	9,673,293	**3,958,945**	**182,111**	**13,814,349**
Trading liabilities[1]	**21,372**	**2,384,261**	**469,125**	**2,874,758**
Derivative financial liabilities (Note 39)	**3,514**	**2,091,083**	**1,808**	**2,096,405**
Multi-Currency Sukuk Programme (Note 22)	**-**	**1,252,829**	**-**	**1,252,829**
	24,886	**5,728,173**	**470,933**	**6,223,992**
2016				
Financial Assets Held-for-Trading (Note 8)	1,932,130	334,322	-	2,266,452
Financial Investments Available-for-Sale[2] (Note 9)	5,975,899	414,586	167,559	6,558,044
Derivative financial assets (Note 39)	1,225	2,961,125	26,604	2,988,954
	7,909,254	3,710,033	194,163	11,813,450
Trading liabilities[1]	6,818	3,402,593	692,379	4,101,790
Derivative financial liabilities (Note 39)	1,775	3,111,193	14,060	3,127,028
Multi-Currency Sukuk Programme (Note 22)	-	1,256,001	-	1,256,001
	8,593	7,769,787	706,439	8,484,819

[1] *Trading liabilities consist of structured investments, Islamic structured products, negotiable instruments of deposits classified as trading, net short position in securities and settlement accounts classified as held for trading. Structured investments, negotiable instruments of deposits, Islamic structured products, and net short position in securities form part of the balance disclosed under Note 21 (Other Liabilities).*

[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)

5 Use of estimates and judgments (Cont'd)

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

	Bank			
	Level 1	**Level 2**	**Level 3**	**Total**
2017	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial Assets Held-for-Trading (Note 8)	**1,806,529**	**182,190**	**-**	**1,988,719**
Financial Investments Available-for-Sale (Note 9)	**5,815,553**	**1,566,401**	**177,407**	**7,559,361**
Derivative financial assets (Note 39)	**4,160**	**2,036,141**	**4,704**	**2,045,005**
	7,626,242	**3,784,732**	**182,111**	**11,593,085**
Trading liabilities[3]	**21,372**	**2,101,341**	**469,125**	**2,591,838**
Derivative financial liabilities (Note 39)	**3,462**	**2,103,985**	**1,808**	**2,109,255**
	24,834	**4,205,326**	**470,933**	**4,701,093**
2016				
Financial Assets Held-for-Trading (Note 8)	1,931,642	334,322	-	2,265,964
Financial Investments Available-for-Sale[4] (Note 9)	4,607,325	414,586	167,559	5,189,470
Derivative financial assets (Note 39)	1,221	3,061,621	26,604	3,089,446
	6,540,188	3,810,529	194,163	10,544,880
Trading liabilities[3]	6,818	2,433,184	692,379	3,132,381
Derivative financial liabilities (Note 39)	1,771	3,116,682	14,060	3,132,513
	8,589	5,549,866	706,439	6,264,894

[3] *Trading liabilities consist of structured investments, negotiable instruments of deposits classified as trading, net short position in securities and settlement accounts classified as held for trading. Structured investments, negotiable instruments of deposits and short position in securities form part of the balance disclosed under Note 21 (Other Liabilities).*

[4] *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.*

5 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.

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

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

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

(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 identical or similar instruments in active markets or quoted prices for 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.

5 Use of estimates and judgments (Cont'd)

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 trading liabilities and are measured at fair value. The credit spread applied to these instruments is derived from the spreads at which the Group and the Bank issue structured notes.

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

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

(iv) Fair value adjustments

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

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

- **Risk-related adjustments**

(i) Bid-offer

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

5 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, there exists a range of possible values that the financial instrument or market parameter may assume and an adjustment may be necessary to reflect the likelihood that in estimating the fair value of the financial instrument, market participants would adopt more conservative values for uncertain parameters and/or model assumptions than those used in the HSBC's Group valuation model.

(iii) Credit valuation adjustment (CVA)

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. Further detail is provided below.

(iv) Debit valuation adjustment(DVA)

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 full market value of the transactions.

(v) 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. This includes the uncollateralised component of collateralised derivatives in addition to derivatives that are fully uncollateralised. The expected future funding exposure is calculated by a simulation methodology, where available and is adjusted for events that may terminate the exposure such as the default of the group 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. Additionally, markets evolve, and models that were adequate in the past may require development to capture all material market characteristics in current market conditions. In these circumstances, model limitation adjustments are adopted. As model development progresses, model limitations are addressed within the valuation models and a model limitation adjustment is no longer needed.

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

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

5 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 2017, the FFVA was +RM2.9 million for the Group (2016: +RM13.8 million) and +RM4.0 million for the Bank (2016: +RM18.8 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 will continue to monitor industry evolution and refine the calculation methodology as necessary.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 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:

	2017			2016		
	Derivative financial assets	**Derivative financial liabilities**	**Trading Liabilities**	Derivative financial assets	Derivative financial liabilities	Trading Liabilities
Group (RM'000)						
Balance at 1 January	**26,604**	**14,060**	**692,379**	43,637	16,170	851,738
Total gains or losses in profit or loss	**(2,569)[1]**	**(8,347)[2]**	**(44,474)[2]**	(3,090)[1]	5,927[1]	18,561[1]
Issues	**-**	**-**	**-**	-	-	-
Settlements	**-**	**-**	**(178,780)**	-	-	(79,396)
Transfer out of Level 3	**(19,331)**	**(3,905)**	**-**	(13,943)	(8,037)	(98,524)
Balance at 31 December	**4,704**	**1,808**	**469,125**	26,604	14,060	692,379

	2017			2016		
	Derivative financial assets	**Derivative financial liabilities**	**Trading Liabilities**	Derivative financial assets	Derivative financial liabilities	Trading Liabilities
Bank (RM'000)						
Balance at 1 January	**26,604**	**14,060**	**692,379**	49,325	16,170	760,239
Total gains or losses in profit or loss	**(2,569)[1]**	**(8,347)[2]**	**(44,474)[2]**	(2,670)[1]	5,927[1]	19,185[1]
Issues	**-**	**-**	**-**	-	-	-
Settlements	**-**	**-**	**(178,780)**	-	-	(67,250)
Transfer out of Level 3	**(19,331)**	**(3,905)**	**-**	(20,051)	(8,037)	(19,795)
Balance at 31 December	**4,704**	**1,808**	**469,125**	26,604	14,060	692,379

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 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:

2017 **Group (RM'000)**	**Derivative financial assets**	**Derivative financial liabilities**	**Trading liabilities**
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]
2016 Group (RM'000)			
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	(3,149)[1]	1,774[1]	83,583 [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	59[2]	4,153[1]	(65,022)[2]
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]
2016 Bank (RM'000)			
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	(3,149) [1]	1,774 [1]	17,479 [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	479[2]	4,153[1]	1,706[1]

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 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	**2017 : 3.00% - 12.79%** 2016 : 5.81% - 14.50%
Trading liabilities	Option model	Foreign currency volatility	**2017 : 2.50% - 12.79%** 2016 : 2.87% - 18.67%
		Long term equity volatility	**2017 : 0.00% - 18.00%** 2016 : 12.85% - 24.25%
		Equity/Equity Index Correlation	**2017 : 0.48**[1] 2016 : 0.48-0.80

[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 and the Bank's long option positions (i.e. the positions in which the Group and the Bank have purchased options), while the Group and the Bank's short option positions (i.e. the positions in which the Group and the Bank have sold options) will suffer losses.

Volatility varies by underlying reference market price, and by strike and maturity of the option. Volatility also varies over time. Certain volatilities, typically those of a longer-dated nature, are unobservable. The unobservable volatility is then estimated from observable data. For example, longer-dated volatilities may be extrapolated from shorter-dated volatilities.

The range of unobservable volatilities quoted in the table reflects the wide variation in volatility inputs by reference 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 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.

(ix) 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:

	2017 Effect on profit or loss		2016 Effect on profit or loss	
	Favourable changes	**Unfavourable changes**	Favourable changes	Unfavourable changes
Group (RM'000)				
Derivative financial assets	**404**	**(404)**	1,996	(1,996)
Derivative financial liabilities	**164**	**(164)**	901	(901)
Trading liabilities	**110**	**(110)**	130	(130)
	678	**(678)**	3,027	(3,027)

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)

5 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 2017 Carrying amount RM'000	**31 Dec 2017 Fair Value RM'000**	31 Dec 2016 Carrying amount RM'000	31 Dec 2016 Fair Value RM'000
Financial Assets				
Loans, advances and financing	**51,979,654**	**52,054,398**	46,894,834	47,025,359
Financial Liabilities				
Deposits from customers	**56,551,151**	**57,918,193**	57,711,534	57,699,801
Deposits and placements from banks and other financial institutions	**5,353,609**	**5,382,860**	6,571,193	6,569,349
Multi-Currency Sukuk Programme	**-**	**-**	500,000	498,750
Subordinated liabilities	**1,083,903**	**1,127,276**	1,648,824	1,701,605

	Bank			
	31 Dec 2017 Carrying amount RM'000	**31 Dec 2017 Fair Value RM'000**	31 Dec 2016 Carrying amount RM'000	31 Dec 2016 Fair Value RM'000
Financial Assets				
Loans, advances and financing	**38,595,851**	**38,659,506**	35,151,571	35,275,633
Financial Liabilities				
Deposits from customers	**46,516,647**	**47,885,722**	48,985,012	48,976,820
Deposits and placements from banks and other financial institutions	**4,432,767**	**4,445,603**	6,542,777	6,540,990
Subordinated liabilities	**1,083,903**	**1,127,276**	1,648,824	1,701,605

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgments (Cont'd)

c) Fair Values of Financial Assets and Liabilities not measured at fair value (Cont'd)

The methods and assumptions used in estimating the fair values of financial instruments other than those already mentioned in Note 3(f) are as follows:

- **Cash and short term funds**
- **Securities purchased under resale agreements**
- **Deposits and placements with banks and other financial institutions**
- **Obligations on securities sold under repurchase agreements**
- **Bills payable**

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

(i) Loans, advances and financing
For personal and commercial loans and financing which mature or reprice after six months, fair value is principally estimated by discounting anticipated cash flows (including interest/profit at contractual rates). Performing loans/financing are grouped to the extent possible, into homogenous pools segregated by maturity within each pool. In general, cash flows are discounted using current market rates for instruments with similar maturity, repricing and credit risk characteristics. The fair value of a loan reflects loan impairments at the balance sheet date. For impaired loans/financing, the fair value is the carrying value of the loans/financing, net of individual impairment allowance. Collective impairment allowance is deducted from the fair value of loans, advances and financing.

(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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgments (Cont'd)

c) *Fair Values of Financial Assets and Liabilities not measured at fair value (Cont'd)*

The following tables sets out the fair values of the financial assets and financial liabilities not measured at fair value 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

			Group		
31 December 2017					**Total**
				Total	**carrying**
RM'000	**Level 1**	**Level 2**	**Level 3**	**fair values**	**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**

			Group		
31 December 2016					**Total**
				Total	**carrying**
RM'000	**Level 1**	**Level 2**	**Level 3**	**fair values**	**amount**
Financial Assets					
Loans, advances and financing	-	-	47,025,359	47,025,359	46,894,834
Financial Liabilities					
Deposits from customers	-	57,699,801	-	57,699,801	57,711,534
Deposits and placements from banks and other financial institutions	-	6,569,349	-	6,569,349	6,571,193
Multi-Currency Sukuk Programme	-	498,750	-	498,750	500,000
Subordinated liabilities	-	1,701,605	-	1,701,605	1,648,824

			Bank		
31 December 2017					**Total**
				Total	**carrying**
RM'000	**Level 1**	**Level 2**	**Level 3**	**fair values**	**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)

5 Use of estimates and judgments (Cont'd)

c) Fair Values of Financial Assets and Liabilities not measured at fair value (Cont'd)

	Bank				
31 December 2016 **RM'000**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial Assets					
Loans, advances and financing	-	-	35,275,633	35,275,633	35,151,571
Financial Liabilities					
Deposits from customers	-	48,976,820	-	48,976,820	48,985,012
Deposits and placements from banks and other financial institutions	-	6,540,990	-	6,540,990	6,542,777
Subordinated liabilities	-	1,701,605	-	1,701,605	1,648,824

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Cash and Short-Term Funds

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Cash and balances with banks and other financial institutions	**772,911**	1,121,507	**556,992**	931,916
Money at call and interbank placements maturing within one month	**9,540,865**	15,682,607	**8,322,061**	14,067,972
	10,313,776	16,804,114	**8,879,053**	14,999,888

Included in cash and short term funds of the Group and the Bank are cash collateral pledged on derivative contracts subject to an enforceable master netting arrangement amounting to RM91.7 million (31 December 2016: RM1,079.0 million) and RM116.7 million (31 December 2016: RM1,429.0 million) respectively.

7 Deposits and Placements with Banks and Other Financial Institutions

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Licensed banks	**9,999**	425,000	**3,003,498**	2,439,086
Bank Negara Malaysia	**700,000**	1,436,400	**700,000**	1,436,400
	709,999	1,861,400	**3,703,498**	3,875,486

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 RM2,993.5 million (31 December 2016: RM2,014.1 million).

8 Financial Assets Held-for-Trading

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
At fair value	**RM'000**	RM'000	**RM'000**	RM'000
Money market instruments:				
Malaysian Government treasury bills	**20,238**	128,792	**20,238**	128,792
Islamic treasury bills	**100,279**	29,620	**100,279**	29,620
Bank Negara Malaysia bills and notes	**-**	147,681	**-**	147,681
Malaysian Government securities	**977,129**	1,601,737	**977,129**	1,601,737
Malaysian Government Islamic Sukuk	**755,313**	258,049	**755,313**	257,561
Cagamas bonds and notes	**2,476**	2,452	**2,476**	2,452
	1,855,435	2,168,331	**1,855,435**	2,167,843
Unquoted:				
Corporate bonds and Sukuk	**133,284**	98,121	**133,284**	98,121
	1,988,719	2,266,452	**1,988,719**	2,265,964

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

8 Financial Assets Held-for-Trading (Cont'd)

Credit quality of financial assets held-for-trading based on the ratings of Standard & Poor's on the counterparties.

	Rating	Group		Bank	
		31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
		RM'000	RM'000	**RM'000**	RM'000
Money market instruments:					
Malaysian Government treasury bills	*A+ to A-*	**20,238**	128,792	**20,238**	128,792
Islamic treasury bills	*A+ to A-*	**100,279**	29,620	**100,279**	29,620
Bank Negara Malaysia bills and notes	*A+ to A-*	**-**	147,681	**-**	147,681
Malaysian Government securities	*A+ to A-*	**977,129**	1,601,737	**977,129**	1,601,737
Malaysian Government Islamic Sukuk	*A+ to A-*	**755,313**	258,049	**755,313**	257,561
Cagamas bonds and notes	- [1]	**2,476**	2,452	**2,476**	2,452
Unquoted:					
Corporate bonds and Sukuk	- [1]	**126,155**	95,607	**126,155**	95,607
(including commercial paper)	AA+ to AA-	**4,979**	-	**4,979**	-
	A+ to A-	**2,052**	2,514	**2,052**	2,514
	BBB+ to BBB-	**98**	-	**98**	-
		1,988,719	2,266,452	**1,988,719**	2,265,964

[1] Rated separately by another rating agency.

All the financial assets held-for-trading as disclosed above are not pledged to any counterparties.

9 Financial Investments Available-for-Sale

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
At fair value	**RM'000**	RM'000	**RM'000**	RM'000
Money market instruments:				
Bank Negara Malaysia bills and notes	**817,246**	-	**817,246**	-
Malaysian Government securities	**4,186,864**	2,666,063	**4,186,864**	2,666,063
Malaysian Government Islamic Sukuk	**3,501,536**	2,637,812	**1,454,511**	1,269,238
Malaysian Government Islamic treasury bills	**74,808**	-	**49,872**	-
Cagamas bonds and notes	**374,792**	414,397	**374,792**	414,397
Negotiable instruments of deposit	**279,089**	-	**130,006**	-
US treasury bond	**362,090**	671,742	**362,090**	671,742
	9,596,425	6,390,014	**7,375,381**	5,021,440
Unquoted:				
Shares	**177,407**	167,559	**177,407**	167,559
Corporate bonds and Sukuk	**6,573**	471	**6,573**	471
	183,980	168,030	**183,980**	168,030
	9,780,405	6,558,044	**7,559,361**	5,189,470

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

9 Financial Investments Available-for-Sale (Cont'd)

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

	Group		*Bank*	
	31 Dec 2017 RM'000	31 Dec 2016 RM'000	**31 Dec 2017 RM'000**	31 Dec 2016 RM'000
Maturing within one year	**2,069,078**	895,867	**1,382,070**	715,643
More than one year to three years	**4,397,960**	2,808,372	**2,970,157**	2,075,923
More than three years to five years	**3,129,387**	1,744,117	**3,023,154**	1,308,271
Over five years	**-**	941,658	**-**	921,603
	9,596,425	6,390,014	**7,375,381**	5,021,440

10 Loans, Advances and Financing

(i) By type

	Group		*Bank*	
At amortised cost	**31 Dec 2017 RM'000**	31 Dec 2016 RM'000	**31 Dec 2017 RM'000**	31 Dec 2016 RM'000
Overdrafts/cash line	**876,611**	1,224,214	**794,428**	1,126,374
Term loans/financing:				
Housing loans/financing	**19,381,681**	19,496,554	**14,980,106**	15,139,920
Syndicated term loans/financing	**6,385,123**	2,409,157	**4,244,458**	1,758,891
Factoring receivables	**236,319**	224,757	**236,319**	224,757
Hire purchase receivables	**169,852**	208,921	**-**	-
Lease receivables	**1,379**	2,738	**-**	-
Other term loans/financing[1]	**9,380,633**	10,502,925	**5,208,706**	6,635,422
Bills receivable	**2,524,261**	1,100,284	**2,415,196**	990,012
Trust receipts	**2,280,046**	2,104,186	**1,537,964**	1,641,951
Claims on customers under acceptance credits	**2,020,837**	1,869,112	**1,597,923**	1,364,737
Staff loans/financing	**107,280**	135,101	**102,633**	128,908
Credit/charge cards	**3,374,281**	3,154,850	**2,448,864**	2,367,140
Revolving credit	**6,044,928**	5,152,622	**5,478,672**	4,202,461
Other loans/financing	**10,798**	9,018	**9,150**	7,831
Gross loans, advances and financing	**52,794,029**	47,594,439	**39,054,419**	35,588,404
Less: Allowance for impaired loans, advances and financing				
- Collectively assessed	**(518,836)**	(469,565)	**(277,928)**	(269,550)
- Individually assessed	**(295,539)**	(230,040)	**(180,640)**	(167,283)
Total net loans, advances and financing	**51,979,654**	46,894,834	**38,595,851**	35,151,571

[1] Included in the loans, advances and financing of the Bank at 31 December 2017 are financing which are disclosed as "Asset under Management" in the financial statements of HBMS. These details are as follows:

	Bank	
	31 Dec 2017 RM'000	31 Dec 2016 RM'000
Other term loans/financing	**3,547,160**	832,087

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Loans, Advances and Financing (Cont'd)

(i) By type (Cont'd)

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 3(f) on financial instruments in the audited financial statements of the Group and the Bank for the financial year ended 31 December 2017.

(ii) By type of customer

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Domestic non-bank financial institutions	**564,529**	638,263	**-**	-
Domestic business enterprises:				
Small medium enterprises	**6,958,173**	7,130,268	**4,995,748**	5,309,204
Others	**16,224,147**	12,872,728	**12,609,721**	10,474,991
Government and statutory bodies	**7,222**	10,316	**-**	-
Individuals	**22,558,828**	22,589,526	**16,441,610**	16,687,675
Other domestic entities	**18,522**	6,305	**3,881**	4,839
Foreign entities	**6,462,608**	4,347,033	**5,003,459**	3,111,695
	52,794,029	47,594,439	**39,054,419**	35,588,404

(iii) By residual contractual maturity

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Maturity within one year	**24,408,799**	18,127,142	**18,558,054**	13,770,956
More than one year to three years	**2,911,213**	3,515,403	**1,929,070**	2,860,890
More than three years to five years	**2,559,820**	2,475,446	**1,657,946**	1,363,990
More than five years	**22,914,197**	23,476,448	**16,909,349**	17,592,568
	52,794,029	47,594,439	**39,054,419**	35,588,404

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Loans, Advances and Financing (Cont'd)

(iv) By interest/profit rate sensitivity

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Fixed rate:				
Housing loans/financing	**479**	1,341	**457**	943
Hire purchase receivables	**169,852**	208,921	**-**	-
Other fixed rate loans/financing	**13,236,201**	9,628,558	**10,131,075**	6,844,259
Variable rate:				
BR/BLR/BFR plus	**23,264,364**	24,077,415	**17,807,010**	18,606,188
Cost-plus	**16,123,133**	13,678,204	**11,115,877**	10,137,014
	52,794,029	47,594,439	**39,054,419**	35,588,404

(v) By sector

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Agricultural, hunting, forestry and fishing	**985,426**	1,176,579	**888,008**	1,040,207
Mining and quarrying	**240,735**	384,706	**144,359**	166,512
Manufacturing	**6,579,585**	6,351,035	**4,913,795**	5,163,094
Electricity, gas and water	**72,969**	48,252	**9,699**	15,345
Construction	**2,997,007**	2,468,451	**2,564,874**	2,113,806
Real estate	**4,035,514**	3,098,856	**2,961,674**	2,277,002
Wholesale & retail trade and restaurants & hotels	**3,898,913**	3,760,487	**2,994,148**	2,944,164
Transport, storage and communication	**1,104,049**	373,579	**554,667**	186,858
Finance, insurance and business services	**3,171,660**	2,479,650	**2,178,056**	1,549,936
Household-retail	**26,004,009**	26,017,506	**19,265,049**	19,480,811
Others	**3,704,162**	1,435,338	**2,580,090**	650,669
	52,794,029	47,594,439	**39,054,419**	35,588,404

(vi) By purpose

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Purchase of property:				
Residential	**19,450,388**	19,586,996	**15,046,578**	15,227,147
Non residential	**1,552,966**	1,669,618	**735,638**	816,610
Purchase of securities	**5,101**	5,831	**5,101**	5,831
Purchase of transport vehicles	**25,144**	30,798	**23,500**	28,951
Purchase of fixed assets excluding land & building	**2,222**	4,068	**2,222**	3,702
Consumption credit	**6,028,667**	5,851,404	**3,958,229**	3,957,812
Construction	**2,626,789**	1,943,074	**2,279,991**	1,599,631
Working capital	**20,069,341**	17,567,239	**14,814,378**	13,624,119
Other purpose	**3,033,411**	935,411	**2,188,782**	324,601
	52,794,029	47,594,439	**39,054,419**	35,588,404

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Loans, Advances and Financing (Cont'd)

(vii) By geographical distribution

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Northern Region	**6,681,364**	6,651,438	**5,184,894**	5,246,198
Southern Region	**6,413,866**	6,692,390	**4,907,206**	5,122,978
Central Region	**37,097,724**	31,441,394	**26,802,561**	22,875,491
Eastern Region	**2,601,075**	2,809,217	**2,159,758**	2,343,737
	52,794,029	47,594,439	**39,054,419**	35,588,404

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

11 Impaired Loans, Advances and Financing

(i) Movements in impaired loans, advances and financing

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Balance at 1 January	**1,026,953**	941,081	**723,427**	705,802
Classified as impaired during the financial year	**1,158,562**	1,113,363	**721,988**	754,657
Reclassified as performing	**(533,030)**	(503,968)	**(377,514)**	(381,139)
Amount recovered	**(282,822)**	(290,068)	**(216,817)**	(240,237)
Amount written off	**(275,985)**	(233,455)	**(139,455)**	(115,656)
Balance at 31 December	**1,093,678**	1,026,953	**711,629**	723,427

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

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

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
Collective allowance for impairment	**RM'000**	RM'000	**RM'000**	RM'000
Balance at 1 January	**469,565**	444,234	**269,550**	303,970
Made during the financial year	**393,301**	402,500	**185,470**	191,013
Amount released	**(114,775)**	(186,755)	**(70,801)**	(128,491)
Amount written off	**(229,255)**	(190,414)	**(106,291)**	(96,942)
Balance at 31 December	**518,836**	469,565	**277,928**	269,550

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
Individual allowance for impairment	**RM'000**	RM'000	**RM'000**	RM'000
Balance at 1 January	**230,040**	230,297	**167,283**	161,650
Made during the financial year	**145,899**	110,361	**88,599**	80,320
Amount released	**(110,779)**	(80,987)	**(85,033)**	(62,872)
Amount reinstated/(written off)	**30,379**	(29,631)	**9,791**	(11,815)
Balance at 31 December	**295,539**	230,040	**180,640**	167,283

(iii) By sector

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Agricultural, hunting, forestry and fishing	**58,208**	63,410	**58,208**	63,410
Mining and quarrying	**765**	-	**-**	-
Manufacturing	**58,786**	58,611	**40,975**	54,573
Construction	**10,306**	52,877	**10,306**	52,673
Real estate	**1,108**	1,548	**1,108**	1,548
Wholesale & retail trade, restaurants & hotels	**41,829**	44,973	**32,419**	32,664
Transport, storage and communication	**22,363**	3,950	**17,814**	285
Finance, insurance and business services	**38,692**	25,796	**9,382**	2,450
Household-retail	**859,867**	774,858	**541,151**	515,512
Others	**1,754**	930	**266**	312
	1,093,678	1,026,953	**711,629**	723,427

(iv) By purpose

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Purchase of property:				
Residential	**523,396**	480,942	**360,433**	345,875
Non residential	**34,609**	20,968	**21,804**	10,081
Purchase of transport vehicles	**264**	552	**261**	406
Purchase of fixed assets excluding land & building	**-**	358	**-**	-
Consumption credit	**322,678**	283,385	**171,096**	162,168
Construction	**13,955**	52,766	**11,169**	52,562
Working capital	**198,695**	187,954	**146,785**	152,307
Other purpose	**81**	28	**81**	28
	1,093,678	1,026,953	**711,629**	723,427

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

(v) By geographical distribution

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Northern Region	**188,043**	183,825	**129,130**	136,112
Southern Region	**118,574**	100,367	**79,240**	69,761
Central Region	**631,951**	580,344	**360,379**	367,701
Eastern Region	**155,110**	162,417	**142,880**	149,853
	1,093,678	1,026,953	**711,629**	723,427

12 Other Assets

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Settlements	**45,317**	7,097	**45,317**	7,097
Interest/profit receivable	**135,795**	112,285	**132,378**	103,218
Income receivable	**34,886**	31,209	**27,255**	25,150
Deposits and prepayments	**21,120**	3,136	**20,786**	3,064
Amount due from subsidiary company	**-**	-	**169,489**	36,472
Other receivables	**94,382**	107,912	**77,173**	92,106
	331,500	261,639	**472,398**	267,107

13 Statutory Deposits with Bank Negara Malaysia

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia (BNM) in compliance with Section 26(2)c and 26(3) of the Central Bank of Malaysia Act 2009, the amounts of which are determined at set percentages of total eligible liabilities.

14 Investments in Subsidiary Companies

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	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 2017	31 Dec 2016
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 2017 were not qualified. None of the subsidiaries hold shares in holding company and other related corporations.

15 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)

16 Property and equipment

2017	*Land*	*Buildings*	*Office equipment, fixtures and fittings*	*Computer equipment*	*Motor vehicles*	*Work in progress*	*Total*
	Group						
	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)

16 Property and equipment (Cont'd)

	Group						
2016	*Land*	*Buildings*	*Office equipment, fixtures and fittings*	*Computer equipment*	*Motor vehicles*	*Work in progress*	*Total*
	RM'000 (Restated)	RM'000 (Restated)	RM'000	RM'000	RM'000	RM'000	RM'000
Cost or valuation							
Balance at 1 January	143,509	137,071	242,312	119,428	3,108	-	645,428
Additions	-	-	9,382	3,970	1,203	651	15,206
Disposals	-	-	(435)	(2,134)	(1,091)	-	(3,660)
Written off	-	-	(1,096)	(120)	-	-	(1,216)
Adjustments for revaluation	43,411	(12,611)	-	-	-	-	30,800
Balance at 31 December	186,920	124,460	250,163	121,144	3,220	651	686,558
Representing items at:							
Cost	-	-	250,163	121,144	3,220	651	375,178
Valuation - 2016	186,920	124,460	-	-	-	-	311,380
	186,920	124,460	250,163	121,144	3,220	651	686,558
Accumulated depreciation							
Balance at 1 January	-	-	204,990	97,237	1,815	-	304,042
Charge for the financial year	647	3,632	13,773	8,432	550	-	27,034
Disposals	-	-	(432)	(2,050)	(870)	-	(3,352)
Written off	-	-	(1,091)	(120)	-	-	(1,211)
Adjustments for revaluation	(647)	(3,632)	-	-	-	-	(4,279)
Balance at 31 December	-	-	217,240	103,499	1,495	-	322,234
Net book value at 31 December	186,920	124,460	32,923	17,645	1,725	651	364,324
Carrying amounts that would have been recognised if land and building were stated at cost	7,426	56,289	32,923	17,645	1,725	651	116,659

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 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)

16 Property and equipment (Cont'd)

	Bank						
2016	*Land*	*Buildings*	*Office equipment, fixtures and fittings*	*Computer equipment*	*Motor vehicles*	*Work in progress*	*Total*
	RM'000 (Restated)	RM'000 (Restated)	RM'000	RM'000	RM'000	RM'000	RM'000
Cost or valuation							
Balance at 1 January	143,509	137,071	207,243	101,002	2,809	-	591,634
Additions	-	-	7,407	3,967	1,203	651	13,228
Disposals	-	-	(435)	(1,984)	(1,091)	-	(3,510)
Written off	-	-	(1,096)	(120)	-	-	(1,216)
Adjustments for revaluation	43,411	(12,611)	-	-	-	-	30,800
Balance at 31 December	186,920	124,460	213,119	102,865	2,921	651	630,936
Representing items at:							
Cost	-	-	213,119	102,865	2,921	651	319,556
Valuation - 2016	186,920	124,460	-	-	-	-	311,380
	186,920	124,460	213,119	102,865	2,921	651	630,936
Accumulated depreciation							
Balance at 1 January	-	-	174,983	83,798	1,755	-	260,536
Charge for the financial year	647	3,632	10,690	6,546	490	-	22,005
Disposals	-	-	(432)	(1,900)	(870)	-	(3,202)
Written off	-	-	(1,091)	(120)	-	-	(1,211)
Adjustments for revaluation	(647)	(3,632)	-	-	-	-	(4,279)
Balance at 31 December	-	-	184,150	88,324	1,375	-	273,849
Net book value at 31 December	186,920	124,460	28,969	14,541	1,546	651	357,087
Carrying amounts that would have been recognised if land and building were stated at cost	7,426	56,289	28,969	14,541	1,546	651	109,422

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Intangible Assets

Computer software	***Group***	***Bank***
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**
At 31 December	**5,323**	**5,323**
Net book value at 31 December	**46,573**	**46,573**
2016	RM'000	RM'000
Cost		
Balance at 1 January	256,627	251,574
Additions	18,301	18,301
Written off	(11,761)	(11,761)
Balance at 31 December	263,167	258,114
Accumulated amortisation		
Balance at 1 January	186,758	181,705
Charge for the financial year	22,703	22,703
Written off	(10,192)	(10,192)
At 31 December	199,269	194,216
Accumulated impairment loss		
Balance at 1 January/31 December	5,167	5,167
Net book value at 31 December	58,731	58,731

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 Deferred Tax Assets

The amounts, prior to offsetting are summarised as follows:

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Deferred tax assets	**188,532**	103,283	**178,864**	92,239
Deferred tax liabilities	**(85,427)**	(75,025)	**(84,396)**	(74,376)
	103,105	28,258	**94,468**	17,863

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 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Deferred tax assets:				
- settled more than 12 months	**1,480**	29,233	**1,196**	24,193
- settled within 12 months	**187,052**	74,050	**177,668**	68,046
Deferred tax liabilities:				
- settled more than 12 months	**(67,857)**	(67,257)	**(67,548)**	(66,959)
- settled within 12 months	**(17,570)**	(7,768)	**(16,848)**	(7,417)
	103,105	28,258	**94,468**	17,863

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

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Property and equipment				
Capital allowances	**(9,966)**	(14,323)	**(9,647)**	(13,674)
Revaluation	**(33,229)**	(33,006)	**(33,229)**	(33,006)
Available-for-sale reserve	**(42,232)**	(25,629)	**(41,520)**	(27,696)
Provision for accrued expenses	**162,091**	76,842	**155,011**	70,380
Deferred income	**26,233**	24,308	**23,853**	21,859
Lease receivables	**208**	66	**-**	-
	103,105	28,258	**94,468**	17,863

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 Deferred Tax Assets (Cont'd)

Movement in temporary differences during the financial year

	Group						
	Balance at 1 Jan 2016	*Recognised in profit or loss*	*Recognised in other comprehensive income*	***Balance at 31 Dec 2016 / 1 Jan 2017***	***Recognised in profit or loss***	***Recognised in other comprehensive income***	***Balance at 31 Dec 2017***
	RM'000	RM'000	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Available-for-sale reserve	-	-	2,067	**2,067**	**-**	**(2,067)**	**-**
Provision for accrued expenses	134,933	(58,091)	-	**76,842**	**85,249**	**-**	**162,091**
Deferred income	-	24,308	-	**24,308**	**1,925**	**-**	**26,233**
Lease receivables	-	66	-	**66**	**142**	**-**	**208**
Other temporary differences	862	(862)	-	**-**	**-**	**-**	**-**
Deferred Tax Assets	135,795	(34,579)	2,067	**103,283**	**87,316**	**(2,067)**	**188,532**
Property and equipment							
- capital allowances	(14,902)	579	-	**(14,323)**	**4,357**	**-**	**(9,966)**
- revaluation	(30,007)	658	(3,657)	**(33,006)**	**741**	**(964)**	**(33,229)**
Lease receivables	(22)	22	-	**-**	**-**	**-**	**-**
Available-for-sale reserve	(5,863)	-	(21,833)	**(27,696)**	**-**	**(14,536)**	**(42,232)**
Deferred Tax Liabilities	(50,794)	1,259	(25,490)	**(75,025)**	**5,098**	**(15,500)**	**(85,427)**
Net Deferred Tax Assets	85,001	(33,320)	(23,423)	**28,258**	**92,414**	**(17,567)**	**103,105**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 Deferred Tax Assets (Cont'd)

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

	Bank						
	Balance at 1 Jan 2016	*Recognised in profit or loss*	*Recognised in other comprehensive income*	***Balance at 31 Dec 2016 / 1 Jan 2017***	***Recognised in profit or loss***	***Recognised in other comprehensive income***	***Balance at 31 Dec 2017***
	RM'000	RM'000	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Provision for accrued expenses	127,476	(57,096)	-	**70,380**	**84,631**	**-**	**155,011**
Deferred income	-	21,859	-	**21,859**	**1,994**	**-**	**23,853**
Other temporary differences	738	(738)	-	**-**	**-**	**-**	**-**
Deferred Tax Assets	128,214	(35,975)	-	**92,239**	**86,625**	**-**	**178,864**
Property and equipment							
- capital allowances	(14,453)	779	-	**(13,674)**	**4,027**	**-**	**(9,647)**
- revaluation	(30,007)	658	(3,657)	**(33,006)**	**741**	**(964)**	**(33,229)**
Available-for-sale reserve	(4,301)	-	(23,395)	**(27,696)**	**-**	**(13,824)**	**(41,520)**
Deferred Tax Liabilities	(48,761)	1,437	(27,052)	**(74,376)**	**4,768**	**(14,788)**	**(84,396)**
Net Deferred Tax Assets	79,453	(34,538)	(27,052)	**17,863**	**91,393**	**(14,788)**	**94,468**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Deposits from Customers

	Group		Bank	
(i) By type of deposit	**31 Dec 2017 RM'000**	31 Dec 2016 RM'000 (Restated)	**31 Dec 2017 RM'000**	31 Dec 2016 RM'000 (Restated)
At amortised cost				
Demand deposits	**20,264,702**	19,695,534	**18,150,556**	17,793,237
Savings deposits	**12,846,713**	13,182,399	**11,202,685**	11,555,217
Fixed/Investment deposits	**23,436,236**	24,355,592	**17,159,906**	19,218,332
Repurchase agreements	**-**	59,783	**-**	-
Wholesale money market deposits	**3,500**	418,226	**3,500**	418,226
	56,551,151	57,711,534	**46,516,647**	48,985,012

Comparatives for deposits from customers were restated in accordance with BNM's letter on "Classification and Regulatory Treatment for Structured Products under the Financial Services Act 2013 and Islamic Financial Services Act 2013". Please refer to Note 44 for details.

The maturity structure of fixed/investment deposits is as follows:

	Group		Bank	
	31 Dec 2017 RM'000	31 Dec 2016 RM'000 (Restated)	**31 Dec 2017 RM'000**	31 Dec 2016 RM'000 (Restated)
Due within six months	**18,261,293**	19,249,230	**13,363,838**	14,872,456
More than six months to one year	**4,849,544**	4,932,802	**3,610,173**	4,197,644
More than one year to three years	**244,641**	139,760	**134,572**	120,050
More than three years to five years	**80,758**	33,800	**51,323**	28,182
	23,436,236	24,355,592	**17,159,906**	19,218,332

	Group		Bank	
(ii) By type of customer	**31 Dec 2017 RM'000**	31 Dec 2016 RM'000 (Restated)	**31 Dec 2017 RM'000**	31 Dec 2016 RM'000 (Restated)
Government and statutory bodies	**33,830**	14,607	**28,207**	8,178
Business enterprises	**20,625,420**	20,111,837	**18,404,900**	18,085,693
Individuals	**24,074,294**	25,214,947	**18,662,800**	20,631,064
Others	**11,817,607**	12,370,143	**9,420,740**	10,260,077
	56,551,151	57,711,534	**46,516,647**	48,985,012

20 Deposits and Placements from Banks and Other Financial Institutions

	Group		Bank	
	31 Dec 2017 RM'000	31 Dec 2016 RM'000	**31 Dec 2017 RM'000**	31 Dec 2016 RM'000
Licensed banks	**231,646**	774,180	**231,619**	774,180
Bank Negara Malaysia	**28,507**	63,486	**1,950**	35,070
Other financial institutions	**5,093,456**	5,733,527	**4,199,198**	5,733,527
	5,353,609	6,571,193	**4,432,767**	6,542,777

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

21 Other Liabilities

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
		(Restated)		(Restated)
At amortised cost				
Settlements	**74,224**	71,943	**71,279**	71,943
Interest/profit payable	**221,250**	252,014	**160,602**	190,475
Deferred income	**110,228**	102,972	**99,512**	91,686
Marginal deposit	**70,610**	74,375	**57,518**	51,614
Amount due to subsidiary company	**-**	-	**988**	45,132
Accrued expenses	**687,383**	363,332	**658,339**	337,097
Other creditors	**668,312**	594,717	**603,560**	541,189
	1,832,007	1,459,353	**1,651,798**	1,329,136
At fair value				
Structured products [1]	**2,850,034**	4,094,973	**2,570,059**	3,125,564
	4,682,041	5,554,326	**4,221,857**	4,454,700

[1] Structured products are measured at fair value over the life of the instruments. Structured products are deposits with embedded derivatives, of which both interest/profit paid and fair valuation on the structured products are recorded in net trading income, as per accounting policy in Note 3(i), and respective fair value on trading liabilities is shown in Note 5(b) in the financial statements of the Group and the Bank for the financial year ended 31 December 2017. Comparatives for other liabilities were restated in accordance with BNM's letter on "Classification and Regulatory Treatment for Structured Products under the Financial Services Act 2013 and Islamic Financial Services Act 2013". Please refer to Note 44 for details.

22 Multi-Currency Sukuk Programme

	Group	
	31 Dec 2017	31 Dec 2016
	RM'000	RM'000
Multi-Currency Sukuk Programme (MCSP)	**1,252,829**	1,756,001

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 2017**	**Carrying Value (RM'000)** 31 Dec 2016
At amortised cost					
1st series at amortised cost	500,000	28 Sep 2012	28 Sep 2017	**-**	500,000
At fair value					
2nd series	500,000	16 Oct 2014	16 Oct 2019	**501,201**	502,835
3rd series	750,000	27 Mar 2015	27 Mar 2020	**751,628**	753,166
	1,250,000			**1,252,829**	1,256,001
Total	1,750,000			**1,252,829**	1,756,001

Movement in MCSP	**2nd series**		**3rd series**	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Balance at 1 January	**502,835**	500,641	**753,166**	749,182
Change in fair value other than from own credit risk	**(504)**	4,282	**64**	7,565
Change in fair value from own credit risk	**(1,130)**	(2,088)	**(1,602)**	(3,581)
Balance at 31 December	**501,201**	502,835	**751,628**	753,166

	Group	
	31 Dec 2017	31 Dec 2016
	RM'000	RM'000
The cumulative change in fair value due to changes in own credit risk	**(2,732)**	(5,669)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

23 Subordinated Liabilities

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Subordinated Liabilities	**1,083,903**	1,648,824	**1,083,903**	1,648,824
(i) Subordinated liabilities, at par				
- First tranche issued on 28 June 2007 [1]	**-**	500,000	**-**	500,000
- Second tranche issued on 2 November 2007 [2]	**500,000**	500,000	**500,000**	500,000
Fair value changes arising from fair value hedge	**305**	2,559	**305**	2,559
	500,305	1,002,559	**500,305**	1,002,559

[1] 4.35% coupon rate for RM500 million due 2022 callable with a 100 bp step up coupon in 2017. On 28 June 2017, the Bank has exercised its option to early redeem the RM500 million (first tranche of the subordinated liabilities).

[2] 5.05% coupon rate for RM500 million due 2027 callable with a 100 bp 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 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
(ii) Subordinated term loan				
- First tranche issued on 25 June 2014	**314,714**	348,508	**314,714**	348,508
- Second tranche issued on 30 June 2015	**268,884**	297,757	**268,884**	297,757
	583,598	646,265	**583,598**	646,265

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.

24 Share Capital

Group and Bank	**31 Dec 2017**		31 Dec 2016	
Authorised Share Capital	**Number of Ordinary Shares ('000)**	**RM'000**	Number of Ordinary Shares ('000)	RM'000
Ordinary shares of RM0.50 each	**-**	-	1,000,000	500,000
Preference shares of RM0.50 each	**-**	-	1,000,000	500,000
Ordinary Shares Issued and Fully Paid				
At 1 January - ordinary shares of RM0.50 each	**229,000**	**114,500**	229,000	114,500
Transition to no par value regime on 31 January 2017 under the Companies Act 2016 (See Note 25[2])	**-**	**931,375**	-	-
At 31 December - ordinary shares with no par value (2016: par value of RM0.50 each)	**229,000**	**1,045,875**	229,000	114,500

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

25 Reserves

	Group		Bank	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000 (Restated)	**RM'000**	RM'000
Share premium[2]	**-**	741,375	**-**	741,375
Statutory reserve [1]	**-**	164,500	**-**	114,500
Revaluation reserve	**216,937**	216,229	**216,937**	216,229
Capital redemption reserve[2]	**-**	190,000	**-**	190,000
Available-for-sale reserve	**131,657**	81,157	**131,478**	87,704
Own credit reserve	**230**	(1,846)	**-**	-
Capital contribution reserve[3]	**94,583**	83,841	**94,175**	83,438
Regulatory reserve[4]	**284,000**	284,000	**250,000**	250,000
Retained profits	**7,562,878**	6,855,608	**6,641,367**	6,070,467
	8,290,285	8,614,864	**7,333,957**	7,753,713

[1] The statutory reserve was maintained in compliance with Section 12 of the Financial Services Act 2013 (FSA) for the Bank and Section 12 of the Islamic Financial Services Act 2013 (IFSA) for its Islamic subsidiary respectively, and is not distributable as cash dividends. The Group and the Bank are no longer required to maintain this statutory reserves with effect from 3 May 2017 pursuant to BNM's guideline on Capital Funds.

[2] Prior to 31 January 2017, the application of the share premium account and the capital redemption reserve was governed by Sections 60, 61 and 67A of the Companies Act 1965. In accordance with the transitional provisions set out in Section 618 (2) of the new Companies Act 2016, on 31 January 2017 any amount standing to the credit of the share premium account and capital redemption reserve has become part of the Bank's share capital.

[3] 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.

[4] The regulatory reserve is maintained in compliance with paragraph 13 of BNM's policy document on Classification and impairment provisions for Loans/ Financing and subsequent circular issued on 4 February 2014, to maintain, in aggregate, collective impairment allowance and regulatory reserve of no less than 1.2% of gross loans, advances, and financing, net of individual impairment allowance. The regulatory reserve is debited against retained profits.

26 Net Interest Income

	Group		Bank	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Interest income				
Loans and advances				
- Interest income other than from impaired loans	**1,598,159**	1,603,814	**1,598,159**	1,603,814
- Interest income recognised from impaired loans	**38,392**	41,784	**38,392**	41,784
Money at call and deposit placements with financial institutions	**270,623**	467,287	**348,795**	540,829
Financial investments available-for-sale	**348,852**	203,211	**348,852**	203,211
	2,256,026	2,316,096	**2,334,198**	2,389,638
Interest expense				
Deposits and placements of banks and other financial institutions	**(50,140)**	(40,671)	**(50,140)**	(40,671)
Deposits from customers	**(694,313)**	(746,317)	**(694,313)**	(746,317)
Subordinated liabilities	**(53,885)**	(61,966)	**(53,885)**	(61,966)
Others	**(11,115)**	(11,214)	**(11,115)**	(11,214)
	(809,453)	(860,168)	**(809,453)**	(860,168)
Net interest income	**1,446,573**	1,455,928	**1,524,745**	1,529,470

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27 Net Fee and Commission Income

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Fee and commission income				
Credit cards	**152,161**	149,349	**152,161**	149,349
Service charges	**126,915**	138,471	**126,915**	138,471
Credit facilities	**56,895**	57,155	**56,895**	57,155
Agency	**104,658**	75,925	**104,658**	75,925
Others	**31,491**	35,899	**31,491**	35,929
	472,120	456,799	**472,120**	456,829
Fee and commission expense				
Debit/credit cards	**(65,331)**	(57,573)	**(65,331)**	(57,573)
Interbank and clearing	**(1,412)**	(1,611)	**(1,412)**	(1,611)
Brokerage	**(1,771)**	(1,780)	**(1,771)**	(1,780)
Cash management	**(2,930)**	(3,199)	**(2,930)**	(3,199)
Others	**(15,883)**	(14,804)	**(15,883)**	(14,804)
	(87,327)	(78,967)	**(87,327)**	(78,967)
Net fee and commission income	**384,793**	377,832	**384,793**	377,862

28 Net Trading Income

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Realised gains on financial assets/liabilities held-for-trading and other financial instruments	**34,496**	66,718	**32,869**	66,718
Net interest income/(expense) from financial assets held-for-trading	**68,018**	(6,500)	**68,018**	(6,500)
Net unrealised gains/(losses) on revaluation of financial assets held-for-trading	**18,352**	(24,720)	**17,313**	(24,720)
Net realised gains arising from dealing in foreign currency	**931,988**	548,658	**932,459**	547,424
Net unrealised losses from dealing in foreign currency	**(293,967)**	(120,805)	**(494,055)**	(67,407)
Net realised gains arising from dealing in derivatives	**127,143**	55,590	**131,038**	60,123
Net unrealised losses on revaluation of derivatives	**(118,673)**	(9,830)	**(123,501)**	(16,802)
Gains/(losses) arising from fair value hedges	**34**	(2,849)	**34**	(2,849)
	767,391	506,262	**564,175**	555,987

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

29 Income from Islamic Banking operations

	Group	
	31 Dec 2017	31 Dec 2016
	RM'000	RM'000
Income derived from investment of depositor funds and others	**508,335**	735,992
Income derived from investment of shareholders funds [1]	**143,678**	133,736
Income attributable to the depositors	**(266,188)**	(277,606)
	385,825	592,122
[1] Included in income derived from investment of shareholders funds of the Group at 31 December are net losses on financial instruments designated at fair value through profit or loss.	**(2,732)**	(5,669)

30 Other Operating Income

	Group		Bank	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Disposal of financial investments available-for-sale	**4,123**	25,701	**4,123**	25,701
Dividend income from financial investments available-for-sale				
- Unquoted in Malaysia	**2,319**	1,450	**2,319**	1,450
Rental income	**7,797**	6,345	**7,797**	6,345
Net gains on disposal of property and equipment	**73**	84	**73**	84
Net upwards revaluation on property	**17**	73	**17**	73
Income recharges from subsidiary	**-**	-	**122,260**	128,375
Other operating income	**22,148**	18,304	**22,148**	18,304
	36,477	51,957	**158,737**	180,332

31 Loans/Financing Impairment Charges and other Credit Risk Provisions

	Group		Bank	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Impairment charges on loans and financing:				
(a) Individual allowance for impairment				
Made during the financial year	**145,899**	110,361	**88,599**	80,320
Released during the financial year	**(110,779)**	(80,987)	**(85,033)**	(62,872)
(b) Collective allowance for impairment				
Made during the financial year	**393,301**	402,500	**185,470**	191,013
Released during the financial year	**(114,775)**	(186,755)	**(70,801)**	(128,491)
Impaired loans and financing				
Recovered during the financial year	**(89,204)**	(92,795)	**(55,238)**	(60,930)
Written off during the financial year	**18,623**	16,299	**11,465**	12,718
Impairment charges on other credit related items				
Made during the financial year	**-**	49	**-**	49
Released during the financial year	**(1)**	(168)	**(1)**	(168)
	243,064	168,504	**74,461**	31,639

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Other Operating Expenses

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Personnel expenses	**732,852**	710,426	**686,805**	669,379
Promotion and marketing related expenses	**66,964**	60,476	**55,968**	50,276
Establishment related expenses	**140,897**	153,143	**122,386**	134,137
General administrative expenses	**597,062**	568,336	**558,923**	536,628
	1,537,775	1,492,381	**1,424,082**	1,390,420
Personnel expenses				
Salaries, allowances and bonuses	**550,791**	542,241	**514,599**	509,758
Employees Provident Fund contributions	**92,158**	89,868	**85,873**	84,213
Share based payment	**14,333**	9,886	**14,226**	10,475
Others	**75,570**	68,431	**72,107**	64,933
	732,852	710,426	**686,805**	669,379
Promotion and marketing related expenses	**66,964**	60,476	**55,968**	50,276
Establishment related expenses				
Depreciation of property and equipment	**22,417**	27,034	**18,402**	22,005
Amortisation of intangible assets	**22,187**	22,703	**22,187**	22,703
Intangible assets written off	**618**	1,569	**618**	1,569
Impairment of intangible assets	**156**	-	**156**	-
Information technology costs	**17,769**	20,733	**15,279**	18,064
Hire of equipment	**8,184**	9,385	**8,183**	9,380
Rental of premises	**36,192**	38,334	**28,561**	30,412
Property and equipment written off	**70**	5	**67**	5
General repairs and maintenance	**9,112**	11,885	**9,112**	11,885
Utilities	**15,485**	15,667	**13,405**	13,770
Others	**8,707**	5,828	**6,416**	4,344
	140,897	153,143	**122,386**	134,137
General administrative expenses				
Group recharges	**411,242**	376,075	**408,452**	374,867
Auditors' remuneration				
Statutory audit fees	**555**	425	**429**	325
Regulatory related fees				
- current year	**585**	512	**427**	314
- under/(over) provision of prior year	**133**	(21)	**133**	(21)
Non-audit fees	**20**	52	**12**	44
Professional fees	**11,184**	24,422	**9,303**	22,674
Communication	**21,091**	20,437	**19,219**	19,207
Others	**152,252**	146,434	**120,948**	119,218
	597,062	568,336	**558,923**	536,628

Included in professional fees are fees paid to the Shariah Committee members of HBMS:

	Group		Bank	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Shariah Committee members	**411**	404	**-**	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 Tax expense

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Malaysian income tax				
- Current year	**397,167**	295,875	**374,485**	274,025
- Prior years	**(6,344)**	(4,230)	**(4,616)**	(3,829)
Total current tax recognised in profit or loss	**390,823**	291,645	**369,869**	270,196
Deferred tax				
Origination and reversal of temporary differences				
- Current year	**(92,414)**	33,322	**(91,393)**	34,540
Total Tax expense	**298,409**	324,967	**278,476**	304,736

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

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Profit before income tax	**1,240,220**	1,323,216	**1,133,907**	1,221,592
Income tax using Malaysian tax rates	**297,653**	317,572	**272,138**	293,182
Non-deductible expenses	**14,357**	18,826	**11,511**	15,730
Tax exempt income	**(7,257)**	(7,202)	**(557)**	(348)
(Overprovision)/Underprovision in respect of prior years	**(6,344)**	(4,229)	**(4,616)**	(3,828)
Tax expense	**298,409**	324,967	**278,476**	304,736

34 Earnings per Share

The earnings per ordinary share have been calculated based on profit for the financial year and 229,000,000 (2016: 229,000,000) ordinary shares in issue during the financial year.

35 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)

35 Significant Related Party Transactions and Balances

(a) The significant transactions and outstanding balances of the Group and the Bank with its related parties are as follows:

	Group					
	2017			2016		
	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	**904**	**199**	**-**	152	861	-
Interest/finance income on deposits from customers	**-**	**-**	**392**	-	-	195
Fees and commission	**5,117**	**33,057**	**-**	7,245	34,214	-
Other income	**7,642**	**13,089**	**-**	4,905	11,833	-
	13,663	**46,345**	**392**	12,302	46,908	195
Expenditure						
Interest/finance expense on deposits and placements from banks and other financial institutions	**48,429**	**11,669**	**-**	37,800	7,060	-
Interest/finance expense on deposits from customers	**-**	**-**	**619**	-	-	515
Fees and commission	**5,153**	**6,077**	**-**	3,077	6,220	-
Operating expenses	**254,990**	**156,252**	**-**	227,702	148,373	-
	308,572	**173,998**	**619**	268,579	161,653	515
Amount due from						
Deposits and placements with banks and other financial institutions	**84,800**	**305,224**	**-**	961,869	510,694	-
Loans, advances and financing	**-**	**-**	**7,303**	-	-	10,611
Derivative financial assets	**585,539**	**267,477**	**-**	132,547	437,629	-
Other assets	**1,558**	**30,297**	**-**	1,413	12,613	-
	671,897	**602,998**	**7,303**	1,095,829	960,936	10,611
Amount due to						
Deposit and placements from banks and other financial institutions	**3,336,839**	**1,513,874**	**-**	2,797,944	1,537,958	-
Deposit from customers	**-**	**-**	**32,822**	-	-	26,782
Derivative financial liabilities	**170,920**	**207,596**	**-**	1,111,842	87,955	-
Other liabilities	**255,238**	**160,554**	**-**	21,465	72,892	-
	3,762,997	**1,882,024**	**32,822**	3,931,251	1,698,805	26,782

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)

35 Significant Related Party Transactions and Balances (Cont'd)

	Bank			
	2017			
	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	**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**	**-**
	13,663	**200,432**	**40,136**	**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)

35 Significant Related Party Transactions and Balances (Cont'd)

	Bank			
	2016			
	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	152	73,542	861	-
Interest/finance income on deposits from customers	-	-	-	192
Fees and commission	7,245	30	28,593	-
Other income	4,905	128,375	11,828	-
	12,302	201,947	41,282	192
Expenditure				
Interest/finance expense on deposits and placements from Banks and other financial institutions	37,800	-	4,035	-
Interest/finance expense on deposits from customers	-	-	-	511
Fees and commission	3,077	-	5,935	-
Operating expenses	227,702	3,023	144,142	-
	268,579	3,023	154,112	511
Amount due from				
Deposits and placements with banks and other financial institutions	961,869	2,569,451	431,141	-
Loans, advances and financing	-	-	-	7,722
Derivative financial assets	132,547	477,434	437,625	-
Other assets	1,413	40,377	12,613	-
	1,095,829	3,087,262	881,379	7,722
Amount due to				
Deposit and placements from banks and other financial institutions	2,797,944	-	1,478,867	-
Deposit from customers	-	-	-	25,759
Derivative financial liabilities	1,111,842	18,806	87,953	-
Other liabilities	21,465	45,132	71,518	-
	3,931,251	63,938	1,638,338	25,759

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)

35 Significant Related Party Transactions and Balances (Cont'd)

(b) Key management personnel compensation

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Directors of the Bank and its subsidiaries:				
- Fees	**1,177**	1,050	**664**	580
- Remuneration	**2,973**	2,973	**2,973**	2,973
- Other short term employee benefits (including estimated monetary value of benefits-in-kind)	**5,815**	4,815	**5,815**	4,815
Total short-term employee benefits	**9,965**	8,838	**9,452**	8,368
- Share-based payments	**5,008**	2,792	**5,008**	2,792
Total Directors' Remuneration	**14,973**	11,630	**14,460**	11,160

During the financial years ending 31 December 2017 and 31 December 2016, 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	**23,894**	19,410	**22,381**	18,475
- Share-based payments	**4,404**	3,809	**4,404**	3,809
	28,298	23,219	**26,785**	22,284
Total key management personnel compensation	**43,271**	34,849	**41,245**	33,444

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 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:

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)	2,973	5,437	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 [1]	-	-	-	-	36	36
Choo Yoo Kwan @ Choo Yee Kwan	-	-	-	-	164	164
Lee Choo Hock	-	-	-	-	268	268
Dr. Mohamed Ashraf bin Mohamed Iqbal [2]	-	-	-	-	123	123
Tan Kar Leng @ Chen Kar Leng	-	-	-	-	147	147
Tan Sri Dato' Tan Boon Seng @ Krishnan	-	-	-	-	204	204
	2,973	5,437	5,008	378	1,177	14,973
CEO of the subsidiary						
Arsalaan Ahmed	1,061	427	-	25	-	1,513

[1] Retired on 8 May 2017

[2] Re-Appointed and Re-Designated on 6 August 2017

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Significant Related Party Transactions and Balances (Cont'd)

(b) Key management personnel compensation (Cont'd)

i) Directors/CEO' Remuneration

2016

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)	2,973	4,556	2,792	259	-	10,580
Non Executive Directors of the Bank and subsidiary						
Adil Ahmad	-	-	-	-	98	98
Albert Quah Chei Jin [1]	-	-	-	-	38	38
Azlan bin Abdullah	-	-	-	-	101	101
Choo Yoo Kwan @ Choo Yee Kwan [2]	-	-	-	-	132	132
Datuk Shireen Ann Zaharah Muhiudeen [3]	-	-	-	-	11	11
Lee Choo Hock	-	-	-	-	210	210
Dr. Mohamed Ashraf bin Mohamed Iqbal	-	-	-	-	106	106
Mohamed Ross bin Mohd Din [4]	-	-	-	-	34	34
Seow Yoo Lin [5]	-	-	-	-	24	24
Tan Kar Leng @ Chen Kar Leng	-	-	-	-	133	133
Tan Sri Dato' Tan Boon Seng @ Krishnan	-	-	-	-	163	163
	2,973	4,556	2,792	259	1,050	11,630
CEO of the subsidiary						
Arsalaan Ahmed [6]	205	106	-	4	-	315

[1] Appointed on 5 September 2016
[2] Appointed on 11 February 2016
[3] Resigned on 2 February 2016
[4] Retired on 13 April 2016
[5] Resigned on 14 March 2016
[6] Appointed on 17 October 2016

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Significant Related Party Transactions and Balances (Cont'd)

(b) Key management personnel compensation (Cont'd)

i) Directors/CEO' Remuneration

2017

Bank (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)	**2,973**	**5,437**	**5,008**	**378**	**-**	**13,796**
Non Executive Directors of the Bank						
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**
	2,973	**5,437**	**5,008**	**378**	**664**	**14,460**

2016

Bank (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)	2,973	4,556	2,792	259	-	10,580
Non Executive Directors of the Bank						
Choo Yoo Kwan @ Choo Yee Kwan [1]	-	-	-	-	132	132
Datuk Shireen Ann Zaharah Muhiudeen [2]	-	-	-	-	11	11
Lee Choo Hock	-	-	-	-	141	141
Tan Kar Leng @ Chen Kar Leng	-	-	-	-	133	133
Tan Sri Dato' Tan Boon Seng @ Krishnan	-	-	-	-	163	163
	2,973	4,556	2,792	259	580	11,160

[1] Appointed on 11 February 2016

[2] Resigned on 2 February 2016

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 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 2017		31 Dec 2016	
	Unrestricted RM'000	**Deferred RM'000**	Unrestricted RM'000	Deferred RM'000
Fixed remuneration				
Cash	**17,620**	**-**	13,374	-
Shares and share-linked instruments	**-**	-	151	-
	17,620	**-**	13,525	**-**
Variable remuneration				
Cash	**8,106**	**3,215**	6,078	2,720
Shares and share-linked instruments	**3,229**	**4,305**	2,675	3,287
	11,335	**7,520**	8,753	6,007
	28,955	**7,520**	22,278	6,007

Number of officers having received a variable remuneration during the financial year: 13 (2016:13)

	31 Dec 2017		31 Dec 2016	
	Number	**Amount RM'000**	Number	Amount RM'000
Outstanding deferred remuneration				
Cash	**5**	**7,113**	5	4,833
Shares and share-linked instruments	**11**	**19,253**	10	19,435
		26,366		24,268
Deferred remuneration paid out	**11**	**9,980**	10	4,930

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 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

Bank

	31 Dec 2017		31 Dec 2016	
	Unrestricted RM'000	**Deferred RM'000**	Unrestricted RM'000	Deferred RM'000
Fixed remuneration				
Cash	**16,469**	**-**	12,883	-
Shares and share-linked instruments	**-**	**-**	151	-
	16,469	**-**	13,034	-
Variable remuneration				
Cash	**7,408**	**3,215**	5,918	2,720
Shares and share-linked instruments	**3,229**	**4,227**	2,675	3,287
	10,637	**7,442**	8,593	6,007
	27,106	**7,442**	21,627	6,007

Number of officers having received a variable remuneration during the financial year: 12 (2016: 11)

	31 Dec 2017		31 Dec 2016	
	Number	**Amount RM'000**	Number	Amount RM'000
Outstanding deferred remuneration				
Cash	**5**	**7,113**	5	4,833
Shares and share-linked instruments	**11**	**19,253**	10	19,435
		26,366		24,268
Deferred remuneration paid out	**11**	**9,980**	10	4,930

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36 Credit exposure to connected parties

	Group		Bank	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
	RM'000	RM'000	**RM'000**	RM'000
Aggregate value of outstanding credit exposures to connected parties	**3,717,318**	5,029,677	**2,771,964**	4,192,783
As a percentage of total credit exposures	**5.0%**	6.9%	**4.8%**	7.3%
Aggregate value of total outstanding credit exposures to connected parties which is impaired or in default	**-**	-	**-**	-
As a percentage of total credit exposures	-	-	-	-

37 Capital Adequacy

	Group	
	31 Dec 2017	31 Dec 2016
	RM'000	RM'000
Tier 1 capital		
Paid-up ordinary share capital	**1,045,875**	114,500
Share premium	**-**	741,375
Retained profits	**7,562,878**	6,855,608
Other reserves	**802,284**	1,076,515
Regulatory adjustments	**(893,678)**	(804,852)
Total Common Equity Tier 1 (CET 1) and Tier 1 capital	**8,517,359**	7,983,146
Tier 2 capital		
Subordinated liabilities	**500,000**	600,000
Subordinated term loan	**583,598**	646,265
Collective impairment allowance (unimpaired portion) & regulatory reserves	**611,812**	583,984
Regulatory adjustments	**112,575**	112,156
Total Tier 2 capital	**1,807,985**	1,942,405
Capital base	**10,325,344**	9,925,551
Inclusive of proposed dividend		
CET 1 and Tier 1 Capital ratio	**15.188%**	14.344%
Total Capital ratio	**18.412%**	17.834%
Net of proposed dividend		
CET 1 and Tier 1 Capital ratio	**14.831%**	13.985%
Total Capital ratio	**18.055%**	17.475%

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 2017	31 Dec 2016
	RM'000	RM'000
Total RWA for credit risk	**48,944,965** [1]	48,857,558 [1]
Total RWA for market risk	**1,347,442**	1,004,081
Total RWA for operational risk	**5,787,374**	5,793,257
	56,079,781	55,654,896

[1] The risk weighted amount for credit risk relating to the SIAF/IAA (refer Note 10(i) for more details) are as follows:

	Group	
	31 Dec 2017	31 Dec 2016
	RM'000	RM'000
Under SIAF/IAA arrangement	**3,137,175**	931,474

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Capital Adequacy (Cont'd)

	Bank	
	31 Dec 2017	31 Dec 2016
	RM'000	RM'000
Tier 1 capital		
Paid-up ordinary share capital	**1,045,875**	114,500
Share premium	**-**	741,375
Retained profits	**6,641,367**	6,070,467
Other reserves	**767,339**	1,002,572
Regulatory adjustments	**(1,374,672)**	(1,153,887)
Total Common Equity Tier 1 (CET1) and Tier 1 capital	**7,079,909**	6,775,027
Tier 2 capital		
Subordinated liabilities	**500,000**	600,000
Subordinated term loan	**583,598**	646,265
Collective impairment allowance (unimpaired portion) & regulatory reserves	**443,739**	448,723
Regulatory adjustments	**(603,027)**	(798,117)
Total Tier 2 capital	**924,310**	896,871
Capital base	**8,004,219**	7,671,898
Inclusive of proposed dividend		
CET 1 and Tier 1 Capital ratio	**15.957%**	15.083%
Total Capital ratio	**18.040%**	17.079%
Net of proposed dividend		
CET 1 and Tier 1 Capital ratio	**15.506%**	14.638%
Total Capital ratio	**17.590%**	16.634%

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 2017	31 Dec 2016
	RM'000	RM'000
Total RWA for credit risk	**37,826,954** [1]	38,698,597 [1]
Total RWA for market risk	**1,337,992**	992,685
Total RWA for operational risk	**5,203,610**	5,227,510
	44,368,556	44,918,792

[1] The risk weighted amount for credit risk relating to the SIAF/IAA (refer Note 10(i) for more details) are as follows:

	Bank	
	31 Dec 2017	31 Dec 2016
	RM'000	RM'000
Under SIAF/IAA arrangement	**3,137,175**	931,474

38 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 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
Principal amount	**RM'000**	RM'000	**RM'000**	RM'000
Direct credit substitutes	**2,573,868**	2,540,306	**2,079,481**	2,004,489
Transaction-related contingent items	**9,489,136**	9,087,444	**8,492,366**	7,974,454
Short-term self-liquidating trade-related contingencies	**318,326**	496,518	**268,681**	385,490
Formal standby facilities and credit lines				
- Maturity not exceeding one year	**7,101,221**	18,304,774	**5,361,972**	14,619,766
- Maturity exceeding one year	**11,947,738**	12,855,434	**9,817,124**	10,814,187
Other unconditionally cancellable[1]	**13,519,711**	-	**11,286,520**	-
Unutilised credit card lines	**11,587,852**	9,788,741	**8,563,420**	7,536,799
Foreign exchange related contracts:				
- Less than one year	**71,276,730**	54,971,901	**71,325,986**	55,011,906
- Over one year to less than five years	**7,500,859**	11,415,043	**7,488,345**	11,415,044
- Over five years	**1,605,588**	1,806,757	**1,605,588**	1,806,757
Interest/profit rate related contracts:				
- Less than one year	**14,999,855**	11,487,221	**15,109,855**	11,577,221
- Over one year to less than five years	**28,024,913**	34,218,507	**29,540,800**	35,847,951
- Over five years	**1,534,977**	3,057,912	**1,534,977**	3,057,912
Gold and other precious metals contracts:				
- Less than one year	**6,618**	10,905	**6,618**	10,905
Equity related contracts:				
- Less than one year	**268,827**	2,339,593	**271,772**	3,104,829
- Over one year to less than five years	**834,925**	809,953	**920,319**	919,719
	182,591,144	173,191,009	**173,673,824**	166,087,429

of which the amount related to SIAF/IAA arrangement (refer Note 10(i) for more detail) are as below:

Formal standby facilities and credit lines:				
- Maturity not exceeding one year	**1,047,532**	496,933	**1,047,532**	496,933
- Maturity exceeding one year	**237,166**	-	**237,166**	-
	1,284,698	496,933	**1,284,698**	496,933

[1] Related to the standalone trade facilities commitments which meets the unconditionally cancellable criteria within Capital Adequacy Framewok (Basel II) - Risk Weighted Assets guideline, which allows for 0% credit conversion factor (CCF). These were reclassified from "formal standby facilities and credit lines" effective 30 September 2017. The reclassification is applied prospectively.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

39 Derivative Financial Instruments

Details of derivative financial instruments outstanding are as follows:

i) Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts:

	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
Group	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**
At 31 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)

39 Derivative Financial Instruments (Cont'd)

Details of derivative financial instruments outstanding are as follows (Cont'd):

i) Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts (Cont'd):

	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
Group	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**
At 31 Dec 2016	**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	45,321,748	816,497	-	46,138,245	925,268	27,097	-	952,365	719,265	18,986	-	738,251
- Swaps	8,985,879	10,425,948	1,806,757	21,218,584	782,840	691,078	350,891	1,824,809	518,246	1,010,652	211,712	1,740,610
- Options	664,274	172,598	-	836,872	27,388	1,807	-	29,195	7,297	3,066	-	10,363
Interest/profit rate related contracts												
- Options	361,548	428,684	-	790,232	4,951	4,114	-	9,065	1,999	662	-	2,661
- Swaps	11,035,673	31,974,719	2,637,912	45,648,304	20,583	128,076	19,577	168,236	9,221	129,049	36,052	174,322
Equity related contracts												
- Options	2,339,593	809,953	-	3,149,546	27	2	-	29	442,143	10,120	-	452,263
Precious metal contracts												
- Options	10,905	-	-	10,905	24	-	-	24	101	-	-	101
Sub- total	68,719,620	44,628,399	4,444,669	117,792,688	1,761,081	852,174	370,468	2,983,723	1,698,272	1,172,535	247,764	3,118,571
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	90,000	1,815,104	420,000	2,325,104	-	5,231	-	5,231	-	5,894	2,563	8,457
Sub- total	90,000	1,815,104	420,000	2,325,104	-	5,231	-	5,231	-	5,894	2,563	8,457
Total	68,809,620	46,443,503	4,864,669	120,117,792	1,761,081	857,405	370,468	2,988,954	1,698,272	1,178,429	250,327	3,127,028

39 Derivative Financial Instruments (Cont'd)

Details of derivative financial instruments outstanding are as follows (Cont'd):

i) Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts (Cont'd):

	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
Bank	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**
At 31 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**

39 Derivative Financial Instruments (Cont'd)

Details of derivative financial instruments outstanding are as follows (Cont'd):

i) Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts (Cont'd):

	Contract / Notional Amount				**Positive Fair Value**				**Negative Fair Value**			
Bank	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**
At 31 Dec 2016	**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	45,361,753	816,497	-	46,178,250	924,445	27,097	-	951,542	717,254	18,986	-	736,240
- Swaps	8,985,879	10,425,948	1,806,757	21,218,584	782,840	694,212	350,891	1,827,943	518,246	1,010,652	211,712	1,740,610
- Options	664,274	172,599	-	836,873	27,388	1,807	-	29,195	7,297	3,066	-	10,363
Interest rate related contracts												
- Future	-	-	-	-	-	-	-	-	-	-	-	-
- Options	361,548	618,128	-	979,676	4,951	4,248	-	9,199	1,999	3,206	-	5,205
- Swaps	11,215,673	33,604,719	2,637,912	47,458,304	20,556	128,794	19,577	168,927	9,221	133,974	36,052	179,247
Equity related contracts												
- Options	3,104,829	919,719	-	4,024,548	95,203	2,182	-	97,385	442,170	10,120	-	452,290
Precious metal contracts												
- Options	10,905	-	-	10,905	24	-	-	24	101	-	-	101
Sub- total	69,704,861	46,557,610	4,444,669	120,707,140	1,855,407	858,340	370,468	3,084,215	1,696,288	1,180,004	247,764	3,124,056
Hedging Derivatives:												
Fair Value Hedge												
Interest rate related contracts												
- Swaps	-	1,625,104	420,000	2,045,104	-	5,231	-	5,231	-	5,894	2,563	8,457
Sub- total	-	1,625,104	420,000	2,045,104	-	5,231	-	5,231	-	5,894	2,563	8,457
Total	69,704,861	48,182,714	4,864,669	122,752,244	1,855,407	863,571	370,468	3,089,446	1,696,288	1,185,898	250,327	3,132,513

	Group		*Bank*	
	31 Dec 2017	31 Dec 2016	**31 Dec 2017**	31 Dec 2016
Included in the net non-profit income is the net gains/(losses) arising from fair value hedges during the financial period as follows:	**RM'000**	RM'000	**RM'000**	RM'000
Losses on hedging instruments	**(620)**	(13,052)	**(620)**	(13,052)
Gains on the hedged items attributable to the hedged risk	**654**	10,203	**654**	10,203
	34	(2,849)	**34**	(2,849)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 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 2017 RM'000	31 Dec 2016 RM'000	**31 Dec 2017 RM'000**	31 Dec 2016 RM'000
Carrying amount of assets and collateral pledged				
- Sold under repurchase agreements	**-**	59,783	**-**	-
- Collateral pledged on derivative contracts (ISDA[1])	**91,720**	1,079,045	**116,720**	1,429,045
Fair value of assets and collateral accepted				
- Securities bought under reverse repurchase agreement	**1,964,930**	6,162,230	**1,964,930**	6,162,230
- Securities sold under regulated short selling	**21,372**	6,817	**21,372**	6,817
- Collateral accepted on derivative contracts (ISDA[1])	**682,257**	999,109	**682,257**	999,109

[1] *ISDA: International Swaps and Derivatives Association*

41 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 2017 RM'000	31 Dec 2016 RM'000	**31 Dec 2017 RM'000**	31 Dec 2016 RM'000
Less than one year	**33,531**	36,267	**28,240**	29,316
Between one and three years	**17,141**	19,636	**13,808**	16,900
Between three and five years	**456**	2,502	**440**	2,500
	51,128	58,405	**42,488**	48,716

42 Capital Commitments

	Group		*Bank*	
	31 Dec 2017 RM'000	31 Dec 2016 RM'000	**31 Dec 2017 RM'000**	31 Dec 2016 RM'000
Capital expenditure commitments:				
Property and equipment				
- Authorised and contracted, but not provided for	**4,790**	1,711	**4,790**	1,711

43 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

	2017		2016	
	Number ('000)	**Weighted average exercise price (£)**	Number ('000)	Weighted average exercise price (£)
Balance at 1 January	**66**	**4.48**	116	4.55
Granted in the financial year	**-**	**-**	3	4.31
Exercised in the financial year	**(52)**	**4.48**	(38)	4.55
Cancelled in the financial year	**-**	**-**	(5)	4.50
Expired in the financial year	**(2)**	**4.85**	(9)	4.98
Transferred out in the financial year	**-**	**-**	(1)	5.46
Balance at 31 December	**12**	**4.41**	66	4.48
Options vested at 31 December	**52**		38	

	2017 RM'000	2016 RM'000
Compensation cost recognised during the financial year	**38**	(537)

Bank

	2017		2016	
	Number ('000)	**Weighted average exercise price (£)**	Number ('000)	Weighted average exercise price (£)
Balance at 1 January	**66**	**4.48**	116	4.55
Granted in the financial year	**-**	**-**	3	4.31
Exercised in the financial year	**(52)**	**4.48**	(38)	4.55
Cancelled in the financial year	**-**	**-**	(5)	4.50
Expired in the financial year	**(2)**	**4.85**	(9)	5.00
Transferred out in the financial year	**-**	**-**	(1)	5.46
Balance at 31 December	**12**	**4.41**	66	4.48
Options vested at 31 December	**52**		38	

	2017 RM'000	2016 RM'000
Compensation cost recognised during the financial year	**38**	(524)

The weighted average remaining contractual life for the share options is 0.5 years (2016: 1.13 years).

43 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*	
	2017	2016	**2017**	2016
	Number	Number	**Number**	Number
	('000)	('000)	**('000)**	('000)
Balance at 1 January	**909**	831	**903**	807
Granted in the financial year	**315**	532	**314**	530
Exercised in the financial year	**(383)**	(377)	**(381)**	(377)
Released in the financial year	**(67)**	(3)	**(66)**	(3)
Cancelled in the financial year	**(21)**	(53)	**(20)**	(32)
Transferred out in the financial year	**(2)**	(21)	**(3)**	(22)
Balance at 31 December	**751**	909	**747**	903

	2017	2016	**2017**	2016
	RM'000	RM'000	**RM'000**	RM'000
Compensation cost recognised during the financial year	**14,295**	10,423	**14,188**	10,999

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan and the Share Match Schemes is £5.71 (2016: £4.12). The weighted average fair value of the HSBC share at 31 December 2017 for the share granted during the year was £5.20 (2016: £5.01). The weighted average remaining vesting period as at 31 December 2017 was 2.71 years (2016: 3.77 years).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

44 Comparative Figures

The presentation and classification of items in the financial statements are consistent with the previous financial year except those listed below. There was no significant impact to the financial performance and ratios in relation to the financial year ended 31 December 2017. The Group's and the Bank's prior year profit and loss and retained profits brought forward are not affected by these reclassifications except for item d) as illustrated below.

Comparatives for deposits from customers and other liabilities were restated in accordance with BNM's letter on "Classification and Regulatory Treatment for Structured Products under the Financial Services Act 2013 and Islamic Financial Services Act 2013".

	Statement of Financial Position	*Group*		*Bank*	
	31 Dec 2016	RM'000 As restated	RM'000 As previously stated	RM'000 As restated	RM'000 As previously stated
a)	**Deposits from Customers**	57,711,534	60,837,098	48,985,012	52,110,576
	(of which the affected components are disclosed below):				
	By type of deposit				
	At amortised cost				
	Negotiable instruments of deposit	-	641,776	-	641,776
	At fair value				
	Structured investments	-	2,483,788	-	2,483,788
	The maturity structure of fixed/investment deposits is as follows:				
	Due within six months	19,249,230	19,400,668	14,872,456	15,023,894
	More than six months to one year	4,932,802	5,155,699	4,197,644	4,420,541
	More than one year to three years	139,760	327,056	120,050	307,346
	More than three years to five years	33,800	113,945	28,182	108,327
	By type of customer				
	Government and statutory bodies	14,607	26,145	8,178	19,716
	Business enterprises	20,111,837	20,114,260	18,085,693	18,088,116
	Individuals	25,214,947	27,629,617	20,631,064	23,045,734
	Others	12,370,143	13,067,076	10,260,077	10,957,010
b)	**Other liabilities**	5,554,326	2,428,762	4,454,700	1,329,136
	(of which the affected components are disclosed below):				
	At fair value				
	Structured products	4,094,973	969,409	3,125,564	-

During the financial year, the Group and the Bank has early adopted MFRS 9 relating to the presentation of gains and losses on financial liabilities designated at fair value. The "Own Credit Reserves" and the "Retained Profits" as at 1 January 2017 has been restated as follows:

	Statements for Changes in Equity	*Group*		*Bank*	
	1 Jan 2017	RM'000 As restated	RM'000 As previously stated	RM'000 As restated	RM'000 As previously stated
c)	**Own Credit Reserve**	(1,846)	-	-	-
d)	**Retained Profits**	6,855,608	6,853,762	-	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

44 Comparative Figures (Cont'd)

For property and equipments, freehold land, short term leasehold land and long term leasehold land have been grouped as "land", whereas buildings on freehold land, buildings on short term leasehold land and buildings on long term leasehold land have been grouped as "buildings", comparatives for land and buildings were restated in accordance with the requirement of Companies Act 2016.

e) Note 16 - Property and equipment

2016	Group and Bank As restated *Land*	*Buildings*	Group and Bank As previously stated *Freehold land*	*Short term leasehold land*	*Long term leasehold land*	*Buildings on freehold land*	*Buildings on short term leasehold land*	*Buildings on long term leasehold land*
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cost or valuation								
Balance at 1 January	143,509	137,071	121,568	16,767	5,174	122,382	11,163	3,526
Adjustments for revaluation	43,411	(12,611)	24,972	16,563	1,876	(18,822)	3,987	2,224
Balance at 31 December	186,920	124,460	146,540	33,330	7,050	103,560	15,150	5,750
Representing items at:								
Valuation - 2016	186,920	124,460	146,540	33,330	7,050	103,560	15,150	5,750
	186,920	124,460	146,540	33,330	7,050	103,560	15,150	5,750
Accumulated depreciation								
Charge for the financial year	647	3,632	-	511	136	3,221	318	93
Adjustments for revaluation	(647)	(3,632)	-	(511)	(136)	(3,221)	(318)	(93)
Balance at 31 December	-	-	-	-	-	-	-	-
Net book value at 31 December	186,920	124,460	146,540	33,330	7,050	103,560	15,150	5,750
Carrying amounts that would have been recognised if land and building were stated at cost	7,426	56,289	5,203	1,001	1,222	47,758	6,331	2,200