

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

FINANCIAL STATEMENTS – 31 DECEMBER 2009

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

HSBC BANK MALAYSIA BERHAD
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BOARD OF DIRECTORS

Alexander Andrew Flockhart, *non-executive Chairman*

Irene Mitchell Dorner, *Deputy Chairman and Chief Executive Officer*
(Resigned on 15 December 2009)

Mukhtar Malik Hussain, *Deputy Chairman and Chief Executive Officer*
(Appointed on 15 December 2009)

Jonathan William Addis, *executive Director and Deputy Chief Executive Officer*

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

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

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

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

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

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

Ching Yew Chye, *independent non-executive Director*

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PROFILE OF DIRECTORS

Alexander Andrew Flockhart, non-executive Chairman

Age 58. Appointed on 30 August 2007. Mr Flockhart is Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited (“HSBCL”) and Global Head of Commercial Banking. As Group Managing Director Asia-Pacific, Mr Flockhart is a member of the HSBC Group Management Board. He is also a director of HSBC Bank Australia Limited and a non-executive director of HSBC Bank (China) Company Limited and Hang Seng Bank.

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

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

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

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

Mukhtar Malik Hussain, Deputy Chairman and Chief Executive Officer

Age 49. Appointed on 15 December 2009. He was the Deputy Chairman, HSBC Bank Middle East Limited, Global CEO of HSBC Amanah and CEO of Global Banking and Markets, Middle East and North Africa, a dual role with global responsibilities for Islamic Finance and HSBC’s wholesale banking activities in the Middle East and North Africa before he came to Malaysia.

Mr Mukhtar joined HSBC in 1982 as a Graduate Trainee after graduating in Economics from the University of Wales. He held several positions in HSBC London where he was involved in driving the businesses in Latin America, Emerging Markets and the Middle East.

Mr Mukhtar was the CEO of HSBC Financial Services (Middle East) Limited from 1995 to 2003. In 2003, he assumed the position of CEO, Corporate and Investment Banking and became the Co-Head of Global Banking in 2005. He was then appointed as the Global Head of Principal Investments from 2006 to 2008.

Mr Mukhtar is a non-executive Director of HSBC Bank Middle East Limited.

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Profile of Directors (Cont'd)

Jonathan William Addis, executive Director and Deputy Chief Executive Officer

Age 50. Appointed on 22 October 2008. He graduated from Downing College Cambridge in 1980 and joined HSBC as an International Officer Management Trainee in 1981. Since then, he has held various positions within the HSBC Group in the Middle East, Europe, North America and Asia.

In 1998, he was appointed Senior Vice President, Trade Services, HSBC New York and was responsible for the business development and operational management of the Trade Services including the successful integration of the Trade Finance departments of Marine Midland Bank and Republic National Bank of New York as a result of acquisitions. In 2001, he was appointed Head of Group Financial Business Training, responsible for the development and delivery of HSBC's financial training on a worldwide basis. Thereafter, he assumed the position of Head of Group Internal Audit in Hong Kong which encompassed direct management of inspection teams tasked with assessing HSBC's businesses throughout the Asia Pacific region. In 2006, he was appointed Chief Operating Officer of HSBC Hong Kong until October 2008.

Tan Sri Dato' Sulaiman bin Sujak, independent non-executive Director

Age 75. Appointed on 10 January 1994. Served as an executive Director and Adviser of HSBC Bank Malaysia Berhad for 10 years, before being appointed as a non-executive Director in 2004. He graduated from the Royal Air Force College, Cranwell, England in 1958 and the Royal College of Defence Studies, London in 1973 and had served both with the Royal Air Force and the Royal Malaysian Air Force. He was the first Malaysian to be appointed as the Royal Malaysian Air Force Chief (1967-1976). He served as an Adviser of Bank Negara Malaysia (1977-1983), Commercial Director of Kumpulan Guthrie (1983-1989) and Deputy Chairman of Malaysia Airlines System (1977-2001). Currently, he also sits on the board of FACB Industries Berhad, Nationwide Express Courier Services Berhad and Cycle & Carriage Bintang Berhad.

Dato' Henry Sackville Barlow, independent non-executive Director

Age 65. Appointed on 10 January 1994. He graduated from Eton College and obtained a MA from Cambridge University. He is a former Council Member of the Incorporated Society of Planters and Honorary Secretary of the Heritage Trust of Malaysia. He is a Director of Sime Darby Berhad (formerly known as Synergy Drive Berhad) and The International and Commonwealth University of Malaysia Berhad. He was formerly Joint Managing Director of Highlands and Lowlands Para Rubber Co. Ltd., being instrumental in the company's Malaysianisation process in the late 1970s and early 1980s. Dato' Barlow is a Fellow of The Institute of Chartered Accountants, England and Wales, and a keen environmentalist.

Datuk Ramli bin Ibrahim, independent non-executive Director

Age 69. Appointed on 01 January 1996. Datuk Ramli is a Chartered Accountant from the Institute of Chartered Accountants of Australia. He is currently non-executive Director of several other public listed and unlisted companies, including MEASAT Global Berhad, Ranhill Berhad and BCT Technology Berhad. He is also a Director of AEON Company (M) Berhad and AEON Credit Service (M) Berhad. He was formerly Senior Partner of KPMG Peat Marwick Malaysia (now known as KPMG Malaysia) and executive Chairman of Kuala Lumpur Options and Financial Futures Exchange Berhad.

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Profile of Directors (Cont'd)

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

Age 65. Appointed on 01 September 1999. Datuk Dr Zainal holds a Bsc (Econ) from Queen's University, Belfast, Northern Ireland, MA (Development Economics) from University of Leicester, United Kingdom and PhD (Economics) from Oxford University, United Kingdom. He was attached to the Economic Planning Unit of the Prime Minister's Department from 1969 to 1988. During the 1987-1988 academic year, he was a Visiting Scholar at the Harvard Institute for International Development (HIID), Harvard University (Fulbright Scholar). He has also served as a Deputy Executive Director of the Malaysian Institute of Economic Research (MIER) from 1988 to 1990. Prior to that, he was the South East Asia Regional Economist at Kleinwort Benson Research (Malaysia) Sdn Bhd.

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

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

Age 69. Appointed on 01 February 2000. Prof. Emeritus Dr Mohamed Ariff obtained his BA First Class Honours and MEc from the University of Malaya. He completed his PhD program at the University of Lancaster, England in 1971, on a Commonwealth Scholarship.

Prof. Emeritus Dr Mohamed Ariff, a specialist in International Economics, retired as the executive Director of the Malaysian Institute of Economic Research (MIER) on 31 December 2009. Prior to assuming the position of executive Director of MIER, he held the Chair of Analytical Economics at the University of Malaya where he had also served as the Dean of the Faculty of Economics and Administration. He was a Board Member of the Inland Revenue Board (IRB) and is a Board Member of National Productivity Centre (NPC). He had a brief stint in the private sector as the Chief Economist at the United Asian Bank in 1976.

Dato' Zuraidah binti Atan, independent non-executive Director

Age 50. Appointed on 18 October 2004. She is currently a Director and Chairman of the Finance Board of FAMA (Federal Agricultural Marketing Authority) and a Director of Universiti Utara Malaysia, NCB Holdings Berhad, Kenanga Unit Trust Berhad and Northport (M) Berhad. She was previously President and Chief Executive of Affin Merchant Bank Berhad for four years until September 2003. Prior to that, she served at OCBC Bank (Malaysia) Berhad in various capacities for ten years. A lawyer by training, she obtained her LLB from the University of Buckingham, England in 1984. She sits on various State Government Investment Committees, Boards and Advisory Panels such as Melaka State Government Investment Committee and Kedah State Government Insurance Brokers. She is also a member of the Association of Bumiputra Business and Professional Women, Malaysia. Currently she serves as an adviser to the National Cancer Society of Malaysia.

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Profile of Directors (Cont'd)

Ching Yew Chye, independent non-executive Director

Age 56. Appointed on 22 October 2008. Mr Ching graduated from the University of London in Computer Science and began his career with Robert Horne Group of Companies in Northampton, England in 1977 as an IT and Management Trainee. In 1982, he joined Accenture in London before returning to Accenture in Malaysia in 1983. He retired from Accenture as Senior Partner in 2007.

During his tenure with Accenture, Mr Ching held various management roles including Managing Partner for the South Asia region (2002-2005) and was responsible for all aspects of Accenture's internal business operations, developing strategic capabilities and ensuring operational effectiveness and efficiency.

From 1997 to 2002, he served on the Financial Services Global Management Committee and the Global Executive Council, which were responsible for directing the global strategy and business of financial services industry group. In 1997, he was also appointed Managing Partner for Financial Services Industry Group in Asia.

Mr Ching is currently a Director of Avenue Invest Berhad.

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BOARD RESPONSIBILITY AND OVERSIGHT

BOARD OF DIRECTORS

Composition of the Board

At the date of this report, the Board consists of ten (10) members; comprising two (2) non-independent executive Directors, one (1) non-independent non-executive Director and seven (7) independent non-executive Directors.

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

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

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

Roles and Responsibilities of the Board

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

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

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

Frequency and Conduct of Board Meetings

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

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Board Responsibility and Oversight (Cont'd)

BOARD OF DIRECTORS (Cont'd)

Frequency and Conduct of Board Meetings (Cont'd)

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

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

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

The attendance of Directors at the Board meetings held in the financial year ended 31 December 2009 was as follows:

Name of members	Independent/ Non-Independent	Attendance and number of meetings
Alexander Andrew Flockhart	Chairman, non-independent non-executive Director	5 / 6
Irene Mitchell Dorner	Deputy Chairman and Chief Executive Officer	6 / 6 *
Mukhtar Malik Hussain	Deputy Chairman and Chief Executive Officer	0 / 6 **
Jonathan William Addis	Executive Director and Deputy Chief Executive	6 / 6
Tan Sri Dato' Sulaiman bin Sujak	Independent non-executive Director	6 / 6
Dato' Henry Sackville Barlow	Independent non-executive Director	5 / 6
Datuk Ramli bin Ibrahim	Independent non-executive Director	6 / 6
Datuk Dr Zainal Aznam bin Mohd Yusof	Independent non-executive Director	5 / 6
Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem	Independent non-executive Director	5 / 6
Dato' Zuraidah binti Atan	Independent non-executive Director	6 / 6
Ching Yew Chye	Independent non-executive Director	6 / 6

* Resigned on 15 December 2009

** Appointed on 15 December 2009

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Board Responsibility and Oversight (Cont'd)

BOARD COMMITTEES

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

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

Board Committees

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

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

Management Committees

- Executive Committee
- Credit Committee
- Asset and Liability Management Committee

In addition to the above Board Committees and Management Committees established by the Board, the Bank has established various sub-committees to assist the Executive Committee and the Asset and Liability Management Committee in performing their roles and responsibilities and to assist the Chief Executive Officer in the day to day running of the Bank. These sub-committees are also established to ensure that policy decisions are implemented in accordance with the directives of the Board. The sub-committees established by the Bank include the following:

- Human Resource Steering Committee
- IT Steering Committee
- Operational Risk Management Committee
- Property Committee
- Senior Succession Planning Committee
- Basel II Steering Committee
- Stress Test Steering Committee
- Risk Committee

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Board Responsibility and Oversight (Cont'd)

AUDIT COMMITTEE

Membership

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

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

Meetings

A total of four (4) Audit Committee meetings were held during the financial year. The attendance of the Directors at the Audit Committee meetings held in 2009 was as follows:

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

Terms of Reference

The revised Terms of Reference were approved at the meeting of the Audit Committee on 29 April 2009 and the Board on 29 April 2009.

Membership

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

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

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

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

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

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Board Responsibility and Oversight (Cont'd)

AUDIT COMMITTEE (Cont'd)

Meetings and Quorum

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

The quorum for meetings shall be two Directors.

Objective

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

Responsibilities of the Committee

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

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

In regard to the above:

- (i) members of the Committee shall liaise with the Board, members of senior management and the principal financial officer and the Committee shall meet, at least once a year, with the external auditor and head of internal audit; and
- (ii) the Committee shall consider any significant or unusual items that are, or may need to be, reflected in the annual report and accounts and shall give due consideration to any matters raised by the principal financial officer, head of internal audit, head of compliance or external auditor.
- (iii) the Committee shall ensure that the accounts are prepared and published in a timely and accurate manner with frequent reviews of the adequacy of provisions against contingencies and bad and doubtful debts.

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Board Responsibility and Oversight (Cont'd)

AUDIT COMMITTEE (Cont'd)

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

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Board Responsibility and Oversight (Cont'd)

AUDIT COMMITTEE (Cont'd)

10. To discuss with the external auditor their general approach, nature and scope of their audit and reporting obligations before the audit commences including, in particular, the nature of any significant unresolved accounting and auditing problems and reservations arising from their interim reviews and final audits, major judgemental areas (including all critical accounting policies and practices used by the Bank and changes thereto), all alternative accounting treatments that have been discussed with management together with the potential ramifications of using those alternatives, the nature of any significant adjustments, the going concern assumption, compliance with accounting standards and stock exchange and legal requirements, reclassifications or additional disclosures proposed by the external auditor which are significant or which may in the future become material, the nature and impact of any material changes in accounting policies and practices, any written communications provided by the external auditor to management and any other matters the external auditor may wish to discuss (in the absence of management where necessary).
11. To review and discuss management's statement on internal control systems prior to endorsement by the Board, the effectiveness of the Bank's internal control systems and procedures for compliance with the HSBC Group compliance policy and the relevant regulatory and legal requirements in each of the markets where the Bank is represented and whether management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget.
12. To consider any findings of major investigations of internal control matters as delegated by the Board or on the Committee's initiative and management's response.
13. To receive an annual report, and other reports from time to time as may be required by applicable laws and regulations, from the principal executive officer and principal financial officer to the effect that such persons have disclosed to the Committee and to the external auditor all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which could adversely affect the Bank's ability to record and report financial data and any fraud, whether material or not, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.
14. To review such information as the Disclosure Committee (if any) may request (including reports and minutes of the Disclosure Committee) from time to time.
15. To provide to the Board such assurances as it may reasonably require regarding compliance by the Bank, its subsidiaries and those of its associates for which it provides management services with all supervisory and other regulations to which they are subject.
16. To provide to the Board such additional assurance as it may reasonably require regarding the reliability of financial information submitted to it.
17. To receive from the Compliance function reports on the treatment of substantiated complaints regarding accounting, internal accounting controls or auditing matters received through the Group Disclosure Line (or such other system as the Group Audit Committee may approve) for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

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Board Responsibility and Oversight (Cont'd)

AUDIT COMMITTEE (Cont'd)

18. To review regular risk management reports setting out the risks involved in the Bank's business and how they are controlled and monitored by management and to review the effectiveness of the HSBC Group's risk management framework.
19. To agree the Bank's policy for the employment of former employees of the external auditor, within the terms of the HSBC Group's policy.
20. Where applicable to review the composition, powers, duties and responsibilities of subsidiary companies' Audit Committees.
21. To undertake or consider on behalf of the Chairman or the Board such other related tasks or topics as the Chairman or the Board may from time to time entrust to it.
22. The Committee alone shall meet with the external auditor and with the Head of Operational Risk Assurance and Audit at least once each year to ensure that there are no unresolved issues or concerns.
23. The Committee may appoint, employ or retain such professional advisors as the Committee may consider appropriate. Any such appointment shall be made through the secretary to the Committee, who shall be responsible for the contractual arrangements and payment of fees by the Bank on behalf of the Committee.
24. The Committee shall review annually the Committee's terms of reference and its own effectiveness and recommend to the Board and Group Audit Committee any necessary changes.
25. To report to the Board on the matters set out in these terms of reference.
26. To provide half-yearly certificates to the Group Audit Committee, or to any audit committee of an intermediate holding company in the form required by the Group Audit Committee. Such certificates to include a statement that the members of the Committee are independent.
27. To review any related party transactions that may arise within the Bank and the HSBC Group.
28. To investigate any matter within these terms of reference, to have full access to and co-operation by management and to have full and unrestricted access to information.

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

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Board Responsibility and Oversight (Cont'd)

RISK MANAGEMENT COMMITTEE

Membership

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

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

Meetings

A total of four (4) Risk Management Committee meetings were held during the financial year. The attendance of the Directors at the Risk Management Committee meetings held in 2009 was as follows:

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

Terms of Reference

The revised Terms of Reference were approved at the meetings of the Risk Management Committee on 30 January 2008 and the Board held on 31 January 2008.

Membership

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

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

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

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

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Board Responsibility and Oversight (Cont'd)

RISK MANAGEMENT COMMITTEE (Cont'd)

Meetings and Quorum

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

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

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

Objective

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

Responsibilities of the Committee

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

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Board Responsibility and Oversight (Cont'd)

RISK MANAGEMENT COMMITTEE (Cont'd)

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

Written or Circulating Resolution

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

Amendment

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

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Board Responsibility and Oversight (Cont'd)

NOMINATING COMMITTEE

Membership

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

Datuk Dr Zainal Aznam bin Mohd Yusof (Chairman)
Mukhtar Malik Hussain
Tan Sri Dato' Sulaiman bin Sujak
Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem
Dato' Zuraidah binti Atan

Meetings

One meeting was held during the financial year. The attendance of the Directors at the Nominating Committee meetings held in 2009 was as follows:

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

* Resigned on 15 December 2009

** Appointed on 15 December 2009

Terms of Reference

The revised Terms of Reference were approved at the meetings of the Nominating Committee on 24 March 2008 and the Board held on 5 May 2008.

Membership

The Committee shall consist of a minimum of five members, of which at least four must be non-executive directors. The Executive Director shall be the Chief Executive Officer of the Bank, and in his absence, the Deputy Chief Executive Officer.

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

The Committee shall be supported by the Head of Human Resources and may invite any director, executive or other person to attend any meeting(s) of the Committee as it may from time to time consider appropriate to assist the Committee in the attainment of its objective.

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Board Responsibility and Oversight (Cont'd)

NOMINATING COMMITTEE (Cont'd)

Meetings and Quorum

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

The quorum for meetings shall be three directors, one of which must be an executive director.

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

Objective

The Committee shall be responsible for ensuring that there are formal and transparent procedures for the assessment of the effectiveness of the Board and the Board's various committees, and the performance of the key Senior Management Officers of the Bank.

Responsibilities of the Committee

1. Without limiting the generality of the Committee's objective, the Committee shall have the following responsibilities:
 - 1.1 To review the structure, size, composition (including the skills, knowledge and experience) required of the Board and make recommendations to the Board with regards to any changes through an annual review;
 - 1.2 To ensure that there are established performance evaluation processes for the effectiveness of the Board, the Board's various committees and the key Senior Management Officers of the Bank that are conducted based on objective performance criteria;
 - 1.3 To ensure that there are established procedures to oversee appointment and succession planning for key Senior Management Officers;
 - 1.4 To make recommendations to the Board concerning the re-election by shareholders of directors retiring by rotation;
 - 1.5 To ensure that all directors receive an appropriate continuous training program in order to keep abreast with the latest developments in the industry;
 - 1.6 To ensure that the directors and key Senior Management Officers are not disqualified under section 56 of the Banking and Financial Institutions Act 1989.

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NOMINATING COMMITTEE (Cont'd)

2. In order to be consistent with HSBC Group's global strategies, where strategies and policies related to the objective of this Committee are driven by the parent company, the Committee shall:
 - 2.1 Discuss, evaluate and provide input on strategies and policies to suit the local environment; and
 - 2.2 Deliberate and make the necessary recommendations on such strategies and policies to assist the Board when approving major issues and strategies.
3. Where major decisions related to the objective of this Committee are made by the parent company, the Committee shall evaluate the issues before making recommendations to the Board for adoption.
4. The Committee will not be delegated with decision making powers but shall report its recommendation to the Board for decision.

Written or Circulating Resolution

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

Amendment

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

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Board Responsibility and Oversight (Cont'd)

CONNECTED PARTY TRANSACTIONS COMMITTEE

Membership

The present members of the Connected Party Transactions Committee ('the Committee') comprise:

Datuk Dr Zainal Aznam bin Mohd Yusof
Professor Emeritus Datuk Dr Mohamed Ariff Abdul Kareem
Ching Yew Chye
Paul Norton (Chief Risk Officer)
Edmund Pui (Senior Manager Regional Credit)

Objective

The Committee was established by the Board on 22 October 2008 pursuant to the requirements under the Bank Negara Malaysia Guidelines on Credit Transactions and Exposures with Connected Parties. The Guidelines provide that the approval of non-material credit transactions with connected parties may be delegated to a committee comprising of at least 2 non-executive Directors.

Terms of Reference

The Terms of Reference were approved by the Board at its meeting held on 22 October 2008.

Composition and Quorum

The Committee shall consist of five (5) members, of which three (3) shall be non-executive directors. The other two (2) members are as follows:

- Chief Credit Officer ("CRO")
- Senior Manager Regional Credit

The CRO is empowered to delegate the exercise of his authorities as a member of the Committee, in his absence, to such executive(s) as he sees fit.

A minimum of three (3) members' authorisation shall constitute an approval by the Committee, one of whom must be the CRO, or in his absence, his delegate.

Meetings

There is no requirement for meetings to be held.

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Board Responsibility and Oversight (Cont'd)

CONNECTED PARTY TRANSACTIONS COMMITTEE (Cont'd)

Powers Delegated by the Board

The Committee is delegated with the authority of the Board to approve all corporate/commercial credit transactions with a connected party of HSBC Bank Malaysia Berhad, not exceeding RM5 million.

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

- Credit Policy and Procedures on Credit Transactions with Connected Parties
- Business Instruction Manual - Volume 3 Credit
- Area Lending Guidelines
- Large Credit Exposure Policy
- BNM/GP5 Guidelines on Single Customer Limit
- Companies Act 1965
- Hong Kong Banking Ordinance
- Applicable laws and regulations

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MANAGEMENT REPORTS

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

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

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INTERNAL AUDIT AND INTERNAL CONTROL ACTIVITIES

It is the responsibility of all management at all levels to ensure that effective internal controls are in place for all the operations for which they are responsible. Primary controls within the internal control environment are provided by established and documented procedures, secondary controls by managerial and executive supervision. Internal Audit provides tertiary control through independent inspection.

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

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

The Group's internal audit function monitors compliance with policies and standards and the effectiveness of internal control structures across the whole Group in conjunction with other HSBC Group Internal Audit units. The work of the internal audit function is focused on areas of greatest risk to the Group on a risk-based approach. The head of Operational Risk Assurance and Audit reports functionally to the Audit Committee and the Regional Head of Operational Risk Management Asia Pacific and administratively to the Chief Executive Officer

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

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

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RISK MANAGEMENT

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

The Group'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 regularly reviews its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. Training, individual responsibility and accountability, together with a disciplined, conservative and constructive culture of control, lie at the heart of the Group's management of risk.

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

The Risk Management Committee is entrusted with the responsibility to oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and functioning. In addition, a separate internal Risk Committee was set up during the year in line with the Group's Risk Governance Structure to oversee and ensure that risk issues across all businesses are appropriately managed; and that adequate controls exist.

Credit risk management

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

A Credit and Risk Management structure under the Chief Risk Officer who reports to the Chief Executive Officer, is in place to ensure a more coordinated management of credit risk and a more independent evaluation of credit proposals. The Chief Risk Officer, who also has strong oversight of market, liquidity, funding, operational and environmental risk, has a functional reporting line to the HSBC Group Chief Risk Officer.

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

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

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

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

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Risk Management (Cont'd)

Liquidity and funding management

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its 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 maintains a diversified and stable funding base comprising core retail and corporate customer deposits and institutional balances. This is augmented by wholesale funding and portfolios of highly liquid assets. The objective of the Group's liquidity and funding management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due and that wholesale market access is coordinated and cost effective.

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

The Group's liquidity and funding management process includes:

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

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Risk Management (Cont'd)

Market risk management

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

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

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

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

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

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

Value at risk ('VAR')

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

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Risk Management (Cont'd)

Market risk management (Cont'd)

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

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

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

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

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

Operational risk management

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

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

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

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Risk Management (Cont'd)

Operational risk management (Cont'd)

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

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

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RATING BY EXTERNAL RATING AGENCIES

Details of the Bank's ratings are as follows:

Rating Agency	Date	Rating Classification	Rating Received*
Moody's Investors Service	July 2009	- Financial strength rating - Foreign currency deposits - Foreign currency debts - Outlook	C- A3 A3 Stable
RAM Holdings Berhad	June 2009	- Long term - Short term - Subordinated bonds - Outlook	AAA P1 AA1 Stable

** The ratings above remain unchanged from the previous year.*

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

The directors have pleasure in submitting their report and the audited financial statements of the Group and the Bank for the year ended 31 December 2009.

Principal Activities

The principal activities of the Group are banking and related financial services which also include Islamic banking operations. The principal activities of the subsidiary companies are as disclosed in Note 12 to the financial statements.

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

Results

	<i>Group</i>	<i>Bank</i>
	RM'000	RM'000
Profit before taxation and zakat	882,731	805,303
Taxation and zakat	(227,612)	(207,670)
Profit after taxation and zakat	655,119	597,633

Dividends

Since the end of the previous financial year, the Bank paid a final dividend of RM0.873 per ordinary share less tax at 25% amounting to RM150 million as proposed in the previous year's directors' report. The Bank also paid an interim dividend of RM1.164 per ordinary share less tax at 25% amounting to RM200 million in respect of financial year 2009.

The directors now recommend a final dividend of RM1.456 per ordinary share less tax at 25% amounting to RM250 million in respect of the current financial year.

Reserves and Provisions

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

Bad and Doubtful Debts and Financing

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

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

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Directors' Report (Cont'd)

Current Assets

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

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

Valuation Methods

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

Contingent and Other Liabilities

At the date of this report there does not exist:

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

No contingent or other liability of the Group and of the Bank 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.

Change of Circumstances

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

Items of an Unusual Nature

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

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

HSBC BANK MALAYSIA BERHAD
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Directors' Report (Cont'd)

Business Strategy during the Year

2009 has been a challenging year as the global recession bottomed during the year. The Group delivered a commendable performance in spite of the difficult conditions, and remains on track to achieve organic long term growth in all business segments. It was business as usual for the Group during the year as it continued to remain strong in liquidity, capital strength, cost discipline, relationship-banking and global distribution capabilities.

RAM Holdings Bhd has reaffirmed HSBC Bank Malaysia Berhad's ("the Bank") AAA/P1 ratings, reflecting the Bank's robust asset quality and strong financial standing. The Bank maintains its market leader position in various segments as it continues to win recognition with various awards in 2009, which included:

1. Best Domestic Cash Manager – Euromoney
2. Best Debt House Malaysia – The Asset Triple A
3. Best Foreign Exchange Provider – Global Finance
4. Best Foreign Commercial Bank – FinanceAsia
5. Blueprint Award (RAM Award of Distinction 2008) (MRCB Southern Link Berhad Sukuk jointly led transaction) – RAM League Awards 2009
6. Best Subcustodian – The Asset Triple A Transaction Banking Awards
7. Best Domestic Custodian – The Asset Triple A Transaction Banking Awards
8. Best Trade Finance Bank – The Asset Triple A Transaction Banking Awards
9. Best Transaction Bank – The Asset Triple A Transaction Banking Awards
10. No.1 Top Rated Agent Bank 2009 for Leading Clients by Global Custodian
11. No.1 Sub-Custodian Bank 2009 in the weighted category by Global Investor

The Bank's Islamic subsidiary, HSBC Amanah Malaysia Berhad ("HSBC Amanah"), also won recognition for their groundbreaking jointly led deals which included:

1. Best Islamic Project Finance Deal (Malaysia) (MRCB Southern Link Berhad Sukuk transaction) - The Asset
2. Most Innovative Islamic Finance Deals (MRCB Southern Link Berhad Sukuk transaction) - The Asset

The Group is committed to generate products and solutions in response to market trends, including the development of customised hedging ideas to help customers manage their business risk more effectively. The growth in demand for structured products has seen a corresponding increase in focus from the Group during the year. Further, HSBC Amanah's brand name was also used as leverage for the Group to expand its market share of the Islamic global markets business. The Bank once again asserted its market leadership position among foreign banks in the debt capital markets by maintaining its position as the No.1 foreign bookrunner for Malaysian Ringgit bonds and Islamic bonds for the third consecutive year. However, despite the initiatives taken by the Group to optimise trading potential, the deterioration in customers trade volumes due to the economic downturn, coupled with reduced trading opportunities from a less volatile interest rate market translated into lower trading income during the year.

In corporate banking, the Group continued to capitalise on the competitive advantage offered by its international network and connectivity. There is an increased emphasis on building stronger alignment with other business segments to tap into their pool of existing clientele and create stronger symbiotic business relationships between segments, while expanding coverage on government and government linked businesses. In line with its strategy to lead international business, the Bank achieved a first in the industry by being the first bank in Malaysia to settle cross border Renminbi trade transactions.

Retail banking grew in strength despite intensified competition and weak market conditions as the Group turned its focus to growing its credit card and wealth management business, and retaining existing high quality customer advances. This was achieved by providing better quality services which included a paradigm shift towards needs based selling; offering a wider range of innovative products, having year round marketing campaigns to boost card spending and creating retention programmes designed on relationship pricing mechanisms. The successful launch of the new Islamic home financing product as well as the Islamic credit card through HSBC Amanah during the year further boosted the growth in the mortgages portfolio and card spending / receivables respectively. The Group continues to enhance its Premier proposition locally to strengthen HSBC's global Premier network.

HSBC BANK MALAYSIA BERHAD
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Directors' Report (Cont'd)

Business Strategy during the Year (Cont'd)

HSBC Amanah, which started operations with two branches in the last quarter of 2008 opened, two more new branches and established its very first offsite Self Service Banking terminal in Suria KLCC in 2009. The local and international Islamic financing business is growing from strength to strength and HSBC Amanah is well positioned to be the leading global Islamic bank as it offers a wide spectrum of innovative Islamic retail and corporate products and services to meet the varied needs of discerning customers who prefer Islamic banking and financing solutions.

During the year, the Group has embarked on several measures to improve existing business processes and operational efficiencies, most notable is the transfer of the Group's call centre to the Centre of Excellence in Cyberjaya as part of the Group's strategy to offer superior customer service experience in the most efficient manner.

The Group also continues to make a significant commitment to corporate and social responsibility (CSR) through four major CSR segments, i.e. Environment, Education, Community and Art. The Group contributed to various educational, community and charity programmes during the year, including sponsoring NGOs on environmental research projects.

HSBC BANK MALAYSIA BERHAD
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Directors' Report (Cont'd)

Outlook For 2010

The negative sentiments on the global economy eased towards the year end. With the stabilisation of the financial markets and the stimulus measures implemented by various countries, 2010 is expected to be a year of economic recovery. The Malaysian economy has shown signs of recovery gradually in the last quarter of 2009 and its strong macroeconomic fundamentals and sound financial system should aid in its recovery from the worldwide economic downturn which started in the second half of 2008.

Liquidity in the local financial markets is likely to remain ample. Competition is expected to intensify as new banking licences are expected to be issued to foreign players within the next two years as part of the financial sector liberalisation process. The volatility in the capital markets is expected to improve modestly, while demand for credit could show some small increase as investor and consumer sentiments gradually improve. The Government has taken measures to increase foreign direct investments, and this includes the lifting of the 30 per cent Bumiputera equity requirement for listed companies and 27 services sub-sectors.

The business environment for Islamic financial services in Malaysia remains positive as it is supported by a stable regulatory framework and concerted efforts by the government to promote Malaysia as an Islamic financial centre for the region. The Group is well positioned to capitalise on this as it leverages on HSBC Amanah's platform to offer a wide range of Syariah compliant retail and corporate products and services to cater to the financial and lifestyle needs of its customers. Plans are in place to widen the Group's geographical reach with the opening of new conventional and Islamic branches as well as more Islamic offsite Self Service Banking terminals in 2010.

Focus will remain on growing the Premier proposition and cross selling various banking products to the Group's existing customers by leveraging on the HSBC brand name, with special emphasis on HSBC's Takaful and wealth management products. HSBC Amanah Premier, a cross border Islamic Banking and wealth management service was launched towards end 2009 and is an expansion of HSBC Premier. There is a growing demand from affluent customers for Syariah compliant products and HSBC Amanah Premier caters to this market segment as it offers customers access to Premier benefits with Syariah compliant products.

Rigorous credit risk management and strict cost control will remain the key to ensuring a healthy bottom line for the business in 2010. Nevertheless, the Group will continue to deliver quality customer service and offer innovative banking products and business solutions, while at the same time deepening relationships with valued clients and customers. The Group remains committed to its objective of becoming the most preferred bank in Malaysia.

HSBC BANK MALAYSIA BERHAD
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Directors' Report (Cont'd)

Directors and their Interests in Shares

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

Alexander Andrew Flockhart
Mukhtar Malik Hussain (appointed on 15 December 2009)
Irene Mitchell Dorner (resigned on 15 December 2009)
Jonathan William Addis
Tan Sri Dato' Sulaiman bin Sujak
Dato' Henry Sackville Barlow
Datuk Ramli bin Ibrahim
Datuk Dr Zainal Aznam bin Mohd Yusof
Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem
Dato' Zuraidah binti Atan
Ching Yew Chye

In accordance with Articles 77 and 115 of the Articles of Association, Datuk Dr Zainal Aznam bin Mohd Yusof and Dato' Zuraidah binti Atan shall retire from the Board at the forthcoming Annual General Meeting and will not offer themselves for re-election.

In accordance with Article 84 of the Articles of Association, Mr Mukhtar Malik Hussain who has been appointed since the last Annual General Meeting shall retire at the forthcoming Annual General Meeting, and being eligible, offer himself for re-election.

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

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

Name	Balance at 1.1.2009 (or at date of appointment)	Bought	(Sold)	Balance at 31.12.2009
HSBC Holdings plc				
Ordinary shares of USD0.50				
Alexander Andrew Flockhart	172,583	96,425 (A)	-	269,008
Jonathan William Addis	1,490	570 (B)	(1,490)	570
Tan Sri Dato' Sulaiman bin Sujak	49,821	24,559 (B)	-	74,380
Dato' Henry Sackville Barlow	880,000*	220,000	-	1,100,000*
Ching Yew Chye	-	30,000	-	30,000

(A) *Shares were acquired through scrip dividends, rights issue acquisition and transfer of shares from HSBC Share Plan*

(B) *Shares were acquired through scrip dividends and purchases.*

**Indirect interest held through Majedie Investments plc*

HSBC BANK MALAYSIA BERHAD
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Directors' Report (Cont'd)

Directors and their Interests in Shares (Cont'd)

Ms Irene Mitchell Dorner, a former director of the Bank, acquired 14,443 ordinary shares through scrip dividends, rights issue acquisition and transfer of shares and disposed 6,134 ordinary shares during the financial year prior to her resignation. As of the date of her resignation of 15 December 2009, she held 38,583 ordinary shares.

Name	Number of Shares				
	Shares held at 1.1.2009 (or at date of appointment)	Shares made during year *	(Shares forfeited during the year)	(Shares vested during the year)	Shares held at 31.12.2009
HSBC Holdings plc					
Restricted Share Plan					
Mukhtar Malik Hussain	198,196	-	-	-	198,196
Jonathan William Addis	24,383	29,752	-	-	54,135
Tan Sri Dato' Sulaiman bin Sujak	6,118	-	(6,118)	-	-

* Includes scrip dividends

Ms Irene Mitchell Dorner, a former director of the Bank, was awarded 97,427 shares and had 13,990 shares vested during the financial year prior to her resignation. As of the date of her resignation of 15 December 2009, she had been awarded 97,427 shares under the Restricted Share Plan.

Name	Number of Shares				
	Shares held at 1.1.2009 (or at date of appointment)	Shares made during year ^	(Shares forfeited during the year)	(Shares vested during the year)	Shares held at 31.12.2009
HSBC Holdings plc					
HSBC Share Plan					
Alexander Andrew Flockhart	384,644	575,124	(65,199)	(16,295)	878,274
Mukhtar Malik Hussain	546,820	-	-	-	546,820

^ Includes scrip dividends

Ms Irene Mitchell Dorner, a former director of the Bank, was awarded 9,122 shares during the financial year prior to her resignation. As of the date of her resignation of 15 December 2009, she held 53,947 shares.

Name	Number of Options				
	Balance at 1.1.2009 (or at date of appointment)	Granted	(Exercised)	(Lapsed)	Balance at 31.12.2009
Options over HSBC Holdings plc Shares					
Alexander Andrew Flockhart	1,332	4,725	-	1,528	4,529
Jonathan William Addis	25,500	6,479	-	-	31,979

Ms Irene Mitchell Dorner, a former director of the Bank, was granted 2,717 options and had exercised 2,247 options during the financial year prior to her resignation. As of the date of her resignation of 15 December 2009, she held 2,717 options.

HSBC BANK MALAYSIA BERHAD
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Directors' Report (Cont'd)

Directors and their Interests in Shares (Cont'd)

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

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

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


Ultimate Holding Company

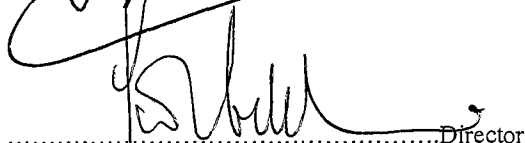
The Directors regard The HongKong and Shanghai Banking Corporation Limited, a company incorporated in Hong Kong and HSBC Holdings plc, a company incorporated in England, as the immediate and ultimate holding companies of the Bank respectively.

Auditors

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

Signed in accordance with a resolution of the directors:


.....Director
MUKHTAR MALIK HUSSAIN


.....Director
JONATHAN WILLIAM ADDIS

Kuala Lumpur, Malaysia
4 February 2010

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
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DIRECTORS' STATEMENT

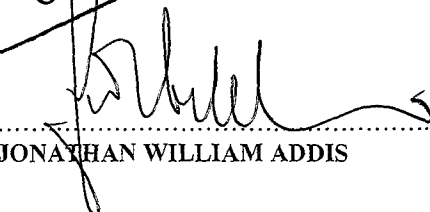
In the opinion of the directors:

We, Mukhtar Malik Hussain and Jonathan William Addis being two of the directors of HSBC Bank Malaysia Berhad, do hereby state on behalf of the directors that, in our opinion, the financial statements set out on pages 42 to 104 are drawn up in accordance with the provision of the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia's guidelines so as to give a true and fair view of the state of affairs of the Group and of the Bank as at 31 December 2009 and of the results and cash flows of the Group and of the Bank for the year ended on that date.

Signed at Kuala Lumpur, Malaysia this 4 February 2010

In accordance with a resolution of the directors:


.....Director
MUKHTAR MALIK HUSSAIN

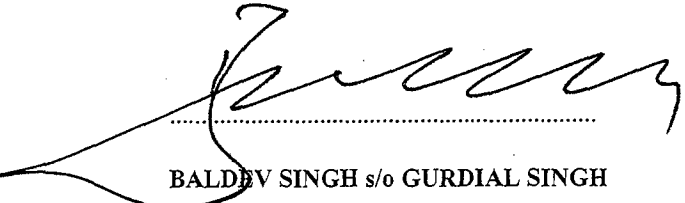

.....Director
JONATHAN WILLIAM ADDIS

HSBC BANK MALAYSIA BERHAD
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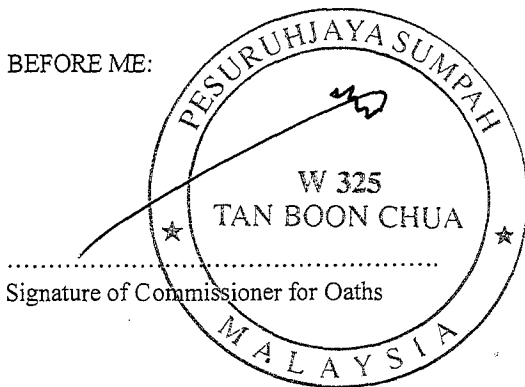
STATUTORY DECLARATION

I, Baldev Singh s/o Gurdial Singh, being the officer primarily responsible for the financial management of HSBC Bank Malaysia Berhad, do solemnly and sincerely declare that, to the best of my knowledge and belief, the financial statements set out on pages 42 to 104 are correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur, Malaysia on 4th February 2010.


.....
BALDEV SINGH s/o GURDIAL SINGH

BEFORE ME:



20th Floor, Ambank Group
Building
No. 55, Jalan Raja Chulan
50200 Kuala Lumpur



KPMG (Firm No. AF 0758)
Chartered Accountants
Level 10, KPMG Tower
8, First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan, Malaysia

Telephone +60 (3) 7721 3388
Fax +60 (3) 7721 3399
Internet www.kpmg.com.my

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HSBC BANK MALAYSIA BERHAD

Report on the Financial Statements

We have audited the financial statements of HSBC Bank Malaysia Berhad, which comprise the balance sheets as at 31 December 2009 of the Group and of the Bank, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 42 to 104.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Group and the Bank as of 31 December 2009 and of their financial performance and cash flows for the year then ended.



Report on Other Legal and Regulatory Requirements

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

- a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- b) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Bank's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- c) Our audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Matters

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

KPMG
Firm Number: AF 0758
Chartered Accountants

Foong Mun Kong
Approval Number: 2613/12/10(J)
Chartered Accountant

Date: 4 February 2010

Petaling Jaya

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

BALANCE SHEETS AS AT 31 DECEMBER 2009

	Note	<i>Group</i>		<i>Bank</i>	
		2009	2008	2009	2008
		RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short term funds	4	11,709,558	8,428,554	11,480,483	7,445,455
Securities purchased under resale agreements		6,780,923	3,778,793	6,780,923	3,778,793
Deposits and placements with banks and other financial institutions	5	142,812	997,814	1,085,869	1,941,125
Securities held-for-trading	6	1,282,817	3,491,259	1,155,431	3,223,521
Securities available-for-sale	7	4,855,892	3,914,911	4,471,672	3,349,350
Loans, advances and financing	8	28,623,792	29,719,270	25,458,819	26,792,239
Other assets	10	1,135,215	1,417,121	1,116,912	1,424,328
Statutory deposits with Bank Negara Malaysia	11	178,827	653,026	150,298	580,497
Investments in subsidiary companies	12	-	-	660,021	660,021
Prepaid lease payments	13	19,099	19,551	19,099	19,551
Property and equipment	14	268,491	258,092	260,991	255,609
Intangible assets	15	57,187	51,153	54,964	49,789
Deferred tax assets	16	82,681	86,769	68,797	71,566
Total Assets		55,137,294	52,816,313	52,764,279	49,591,844
Liabilities					
Deposits from customers	17	44,686,358	40,953,472	42,213,968	37,709,152
Deposits and placements of banks and other financial institutions	18	2,819,638	3,531,472	2,710,022	3,531,472
Bills and acceptances payable		311,616	414,233	308,318	413,180
Other liabilities	19	1,821,930	2,569,719	2,118,650	2,614,505
Recourse obligation on loans sold to Cagamas Berhad		575,511	701,370	575,511	701,370
Provision for taxation and zakat	20	37,773	41,160	33,986	41,090
Subordinated bonds	21	1,000,385	1,027,338	1,000,385	1,027,338
Total Liabilities		51,253,211	49,238,764	48,960,840	46,038,107
Shareholders' Funds					
Share capital	22	114,500	114,500	114,500	114,500
Reserves	23	3,519,583	3,313,049	3,438,939	3,289,237
Proposed dividend		250,000	150,000	250,000	150,000
Shareholders' funds		3,884,083	3,577,549	3,803,439	3,553,737
Total Liabilities and Shareholders' Funds		55,137,294	52,816,313	52,764,279	49,591,844
Commitments and Contingencies	35	75,667,293	85,309,889	74,087,292	83,633,914

The financial statements were approved and authorised for issue by the Board of Directors on 4 February 2010.

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

HSBC BANK MALAYSIA BERHAD
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INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

	<i>Note</i>	<i>Group</i>		<i>Bank</i>	
		2009	2008	2009	2008
		RM'000	RM'000	RM'000	RM'000
Revenue		2,987,602	3,585,920	2,768,599	3,485,204
Interest income	24	1,758,293	2,180,002	1,782,623	2,191,823
Interest expense	25	(737,531)	(1,012,826)	(737,531)	(1,012,826)
Net interest income		1,020,762	1,167,176	1,045,092	1,178,997
Other operating income	26	907,128	1,026,791	985,976	1,052,576
Income from Islamic banking operations	27	271,196	257,949	-	157,999
Operating income		2,199,086	2,451,916	2,031,068	2,389,572
Other operating expenses	28	(1,047,811)	(1,011,638)	(1,004,661)	(996,605)
Profit before allowance		1,151,275	1,440,278	1,026,407	1,392,967
Allowance for losses on loans and financing	29	(258,907)	(222,998)	(211,467)	(207,551)
Impairment losses on available for sale securities		(9,637)	-	(9,637)	-
Profit before taxation and zakat		882,731	1,217,280	805,303	1,185,416
Taxation and zakat	30	(227,612)	(317,923)	(207,670)	(308,780)
Profit attributable to shareholders		655,119	899,357	597,633	876,636
Earnings per RM0.50 share					
- basic	31	286.1 sen	392.7 sen	261.0 sen	382.8 sen
Dividends per RM0.50 ordinary share (net)					
- interim dividend paid		87.3 sen	65.5 sen	87.3 sen	65.5 sen
- proposed		109.2 sen	65.5 sen	109.2 sen	65.5 sen
		196.5 sen	131.0 sen	196.5 sen	131.0 sen

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

HSBC BANK MALAYSIA BERHAD
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STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

	<i>Group</i>									
	← Non-distributable →				→ Distributable					
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Revaluation reserve</i>	<i>Capital redemption reserve</i>	<i>Available-for-sale reserve</i>	<i>Retained profits</i>	<i>Total reserves</i>	<i>Proposed dividend</i>	<i>Total</i>
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Balance as at 1 January 2008	114,500	741,375	114,500	122,769	190,000	41,347	1,546,760	2,756,751	250,000	3,121,251
Deferred tax adjustment on revaluation reserve	-	-	-	816	-	-	-	816	-	816
Net unrealised losses on revaluation	-	-	-	-	-	(6,612)	-	(6,612)	-	(6,612)
Transfer to retained profit on realisation of assets	-	-	-	(862)	-	-	862	-	-	-
Net gains transferred to income statement	-	-	-	-	-	(37,263)	-	(37,263)	-	(37,263)
Net (losses)/gains recognised directly in equity	-	-	-	(46)	-	(43,875)	862	(43,059)	-	(43,059)
Net profit for the year	-	-	-	-	-	-	899,357	899,357	-	899,357
Transfer to statutory reserve	-	-	11,361	-	-	-	(11,361)	-	-	-
Total recognised income and expense for the year	-	-	11,361	(46)	-	(43,875)	888,858	856,298	-	856,298
Dividend paid - 2007 final	-	-	-	-	-	-	-	-	(250,000)	(250,000)
Dividend paid - 2008 interim	-	-	-	-	-	-	(150,000)	(150,000)	-	(150,000)
Proposed dividend - 2008 final	-	-	-	-	-	-	(150,000)	(150,000)	150,000	-
Balance as at 31 December 2008	114,500	741,375	125,861	122,723	190,000	(2,528)	2,135,618	3,313,049	150,000	3,577,549
Balance as at 1 January 2009	114,500	741,375	125,861	122,723	190,000	(2,528)	2,135,618	3,313,049	150,000	3,577,549
Deferred tax adjustment on revaluation reserve	-	-	-	(249)	-	-	-	(249)	-	(249)
Net unrealised gains on revaluation	-	-	-	-	-	1,203	-	1,203	-	1,203
Surplus on revaluation of property	-	-	-	10,542	-	-	-	10,542	-	10,542
Impairment charges reclassified to income statement	-	-	-	-	-	7,228	-	7,228	-	7,228
Net gains transferred to income statement	-	-	-	-	-	(17,309)	-	(17,309)	-	(17,309)
Net gains/ (losses) recognised directly in equity	-	-	-	10,293	-	(8,878)	-	1,415	-	1,415
Net profit for the year	-	-	-	-	-	-	655,119	655,119	-	655,119
Transfer to statutory reserve	-	-	28,743	-	-	-	(28,743)	-	-	-
Total recognised income and expense for the year	-	-	28,743	10,293	-	(8,878)	626,376	656,534	-	656,534
Dividend paid - 2008 final	-	-	-	-	-	-	-	-	(150,000)	(150,000)
Dividend paid - 2009 interim	-	-	-	-	-	-	(200,000)	(200,000)	-	(200,000)
Proposed dividend - 2009 final	-	-	-	-	-	-	(250,000)	(250,000)	250,000	-
Balance as at 31 December 2009	114,500	741,375	154,604	133,016	190,000	(11,406)	2,311,994	3,519,583	250,000	3,884,083

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

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

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

	<i>Bank</i>									
	← <i>Non-distributable</i> →				→ <i>Distributable</i>					
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Revaluation reserve</i>	<i>Capital redemption reserve</i>	<i>Available-for-sale reserve</i>	<i>Retained profits</i>	<i>Total reserves</i>	<i>Proposed dividend</i>	<i>Total</i>
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Balance as at 1 January 2008	114,500	741,375	114,500	122,769	190,000	41,347	1,546,760	2,756,751	250,000	3,121,251
Deferred tax adjustment on revaluation reserve	-	-	-	816	-	-	-	816	-	816
Net unrealised losses on revaluation	-	-	-	-	-	(7,703)	-	(7,703)	-	(7,703)
Transfer to retained profit on realisation of assets	-	-	-	(862)	-	-	862	-	-	-
Net gains transferred to income statement	-	-	-	-	-	(37,263)	-	(37,263)	-	(37,263)
Net gains recognised directly in equity	-	-	-	(46)	-	(44,966)	862	(44,150)	-	(44,150)
Net profit for the year	-	-	-	-	-	-	876,636	876,636	-	876,636
Total recognised income and expense for the year	-	-	-	(46)	-	(44,966)	877,498	832,486	-	832,486
Dividend paid - 2007 final	-	-	-	-	-	-	-	-	(250,000)	(250,000)
Dividend paid - 2008 interim	-	-	-	-	-	-	(150,000)	(150,000)	-	(150,000)
Proposed dividend - 2008 final	-	-	-	-	-	-	(150,000)	(150,000)	150,000	-
Balance as at 31 December 2008	114,500	741,375	114,500	122,723	190,000	(3,619)	2,124,258	3,289,237	150,000	3,553,737
Balance as at 1 January 2009	114,500	741,375	114,500	122,723	190,000	(3,619)	2,124,258	3,289,237	150,000	3,553,737
Deferred tax adjustment on revaluation reserve	-	-	-	(249)	-	-	-	(249)	-	(249)
Net unrealised gains on revaluation	-	-	-	-	-	1,857	-	1,857	-	1,857
Surplus on revaluation of property	-	-	-	10,542	-	-	-	10,542	-	10,542
Impairment charges reclassified to income statement	-	-	-	-	-	7,228	-	7,228	-	7,228
Net gains transferred to income statement	-	-	-	-	-	(17,309)	-	(17,309)	-	(17,309)
Net gains/ (losses) recognised directly in equity	-	-	-	10,293	-	(8,224)	-	2,069	-	2,069
Net profit for the year	-	-	-	-	-	-	597,633	597,633	-	597,633
Total recognised income and expense for the year	-	-	-	10,293	-	(8,224)	597,633	599,702	-	599,702
Dividend paid - 2008 final	-	-	-	-	-	-	-	-	(150,000)	(150,000)
Dividend paid - 2009 interim	-	-	-	-	-	-	(200,000)	(200,000)	-	(200,000)
Proposed dividend - 2009 final	-	-	-	-	-	-	(250,000)	(250,000)	250,000	-
Balance as at 31 December 2009	114,500	741,375	114,500	133,016	190,000	(11,843)	2,271,891	3,438,939	250,000	3,803,439

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

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

CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

	<i>Group</i>	
	2009	2008
	RM'000	RM'000
Cash Flows from Operating Activities		
Profit before taxation and zakat	882,731	1,217,280
Adjustments for :		
Property and equipment written off	82	286
Intangible assets written off	-	1
Depreciation of property and equipment	34,159	30,722
Amortisation of intangible assets	22,482	17,761
Amortisation of prepaid lease payments	452	464
Net (gains)/losses on disposal of property and equipment	(312)	107
Net gains on disposal of equipment recognised under Income from Islamic Banking	(56)	-
Net downwards revaluation on property	28	-
Dividend income	(1,753)	(2,267)
Operating profit before changes in operating assets	937,813	1,264,354
(Increase)/ Decrease in operating assets		
Securities purchased under resale agreements	(3,002,130)	(1,920,214)
Deposits and placements with banks and other financial institutions	855,002	451,139
Securities held-for-trading	2,208,442	(2,255,066)
Loans, advances and financing	1,095,478	(3,712,146)
Other assets	253,703	(490,880)
Statutory deposits with Bank Negara Malaysia	474,199	51,821
Increase/ (Decrease) in operating liabilities		
Deposits from customers	3,732,886	4,638,633
Deposits and placements of banks and other financial institutions	(711,834)	(910,429)
Bills and acceptances payable	(102,617)	(213,497)
Other liabilities	(747,789)	754,169
Recourse obligation on loans sold to Cagamas Berhad	(125,859)	(57,731)
Net cash generated from/(used in) operating activities before income tax	4,867,294	(2,399,847)
Taxation paid	(222,997)	(335,679)
Net cash generated from/(used in) operating activities	4,644,297	(2,735,526)
Cash Flows from Investing Activities		
Purchase of property and equipment	(34,315)	(32,538)
Purchase of intangible assets	(28,516)	(27,046)
Proceeds from disposal of property and equipment	557	2,496
Securities available-for-sale	(952,772)	297,550
Dividends received	1,753	2,267
Net cash (used in)/generated from investing activities	(1,013,293)	242,729
Cash Flow from Financing Activity		
Dividends paid	(350,000)	(400,000)
Net cash used in financing activity	(350,000)	(400,000)
Net increase/(decrease) in Cash and Cash Equivalents	3,281,004	(2,892,797)
Cash and Cash Equivalents at beginning of year	8,428,554	11,321,351
Cash and Cash Equivalents at end of year	11,709,558	8,428,554
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	11,709,558	8,428,554

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

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

CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

	<i>Bank</i>	
	2009	2008
	RM'000	RM'000
Cash Flows from Operating Activities		
Profit before taxation and zakat	805,303	1,185,416
Adjustments for :		
Property and equipment written off	82	286
Intangible assets written off	-	1
Depreciation of property and equipment	32,606	30,585
Amortisation of intangible assets	21,795	17,381
Amortisation of prepaid lease payments	452	464
Net (gains)/losses on disposal of property and equipment	(312)	107
Net downwards revaluation on property	28	-
Dividend income	(1,753)	(2,267)
Operating profit before changes in operating assets	858,201	1,231,973
(Increase)/ Decrease in operating assets		
Securities purchased under resale agreements	(3,002,130)	(1,920,214)
Deposits and placements with banks and other financial institutions	855,256	(492,172)
Securities held-for-trading	2,068,090	(1,987,328)
Loans, advances and financing	1,333,420	(3,942,717)
Other assets	280,463	(569,282)
Statutory deposits with Bank Negara Malaysia	430,199	23,450
Increase/ (Decrease) in operating liabilities		
Deposits from customers	4,504,816	6,452,909
Deposits and placements of banks and other financial institutions	(821,450)	(777,182)
Bills and acceptances payable	(104,862)	(214,550)
Other liabilities	(495,855)	1,797,144
Recourse obligation on loans sold to Cagamas Berhad	(125,859)	(57,731)
Net cash generated from/(used in) operating activities before income tax	5,780,289	(455,700)
Taxation paid	(209,578)	(325,679)
Net cash generated from/(used in) operating activities	5,570,711	(781,379)
Cash Flows from Investing Activities		
Investment in subsidiary	-	(660,000)
Net cash outflow from disposal of Islamic Operations	-	(2,199,049)
Purchase of property and equipment	(27,731)	(30,267)
Purchase of intangible assets	(26,970)	(25,411)
Proceeds from disposal of property and equipment	487	2,496
Securities available-for-sale	(1,133,222)	215,447
Dividend received	1,753	2,267
Net cash used in investing activities	(1,185,683)	(2,694,517)
Cash Flows from Financing Activity		
Dividends paid	(350,000)	(400,000)
Net cash used in financing activity	(350,000)	(400,000)
Net increase/(decreased) in Cash and Cash Equivalents	4,035,028	(3,875,896)
Cash and Cash Equivalents at beginning of year	7,445,455	11,321,351
Cash and Cash Equivalents at end of year	11,480,483	7,445,455
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	11,480,483	7,445,455

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

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

Notes to the Financial Statements as at 31 December 2009

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.

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

2 Basis of Preparation

(a) Statement of compliance

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

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

The significant accounting policies adopted are consistent with those of the audited financial statements for the financial year ended 31 December 2008.

The Group and the Bank have not applied the following accounting standards, amendments and interpretations that have been issued during the financial year by the MASB but are not yet effective for the Group and the Bank.

FRSs / Interpretations	Effective date
-Amendments to FRS 1, First-time Adoption of Financial Reporting Standards and FRS 127, Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2010
-Amendments to FRS 2, Share-based Payment: Vesting Conditions and Cancellations	1 January 2010
-FRS 4, Insurance Contracts	1 January 2010
-FRS 7, Financial Instruments: Disclosures	1 January 2010
-FRS 8, Operating Segments	1 July 2009
-FRS 101, Presentation of Financial Statements	1 January 2010
-FRS 123, Borrowing Costs	1 January 2010
-Amendments to FRS 132, Financial Instruments: Presentation and FRS 101, Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2010
-FRS 139, Financial Instruments: Recognition and Measurement	1 January 2010
-Amendments to FRS 139, Financial Instruments: Recognition and Measurement, FRS 7, Financial Instruments: Disclosures and IC Interpretation 9, Reassessment of Embedded Derivatives	1 January 2010
-Improvements to FRSs (2009)	1 January 2010
-IC Interpretation 9, Reassessment of Embedded Derivatives	1 January 2010
-IC Interpretation 10, Interim Financial Reporting and Impairment	1 January 2010
-IC Interpretation 11, FRS 2 - Group and Treasury Share Transactions	1 January 2010
-IC Interpretation 13, Customer Loyalty Programmes	1 January 2010
-IC Interpretation 14, FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction	1 January 2010

2 Basis of Preparation (Cont'd)

(a) Statement of compliance (Cont'd)

The Group and the Bank plan to apply the abovementioned standards, amendments and interpretations from the annual period beginning on 1 January 2010 except for FRS 4, FRS 8, and IC Interpretation 14 which are not applicable to the Group and the Bank.

The impact of applying FRS 7 and FRS 139 on the financial statements upon first adoption as required by FRS 108.30(b), Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed by virtue of the exemptions given in the respective FRSs. The initial application of the other applicable standards, amendments and interpretations is not expected to have any material impact on the financial statements of the Group and the Bank.

Subsequent to the end of the financial year, on 8 January 2010, the MASB issued the following revised FRSs, new IC Interpretations and Amendments to FRSs:

FRS/ Interpretations	Effective date	
- FRS 1, First-time Adoption of Financial Reporting Standards	1 July	2010
- FRS 3, Business Combinations	1 July	2010
- FRS 127, Consolidated and Separate Financial Statements	1 July	2010
- IC Interpretation 12, Service Concession Arrangements	1 July	2010
- IC Interpretation 15, Agreements for the Construction of Real Estate	1 July	2010
- IC Interpretation 16, Hedges of a Net Investment in a Foreign Operation	1 July	2010
- IC Interpretation 17, Distribution of Non-cash Assets to Owners	1 July	2010
- Amendments to FRS 2, Share-based Payment	1 July	2010
- Amendments to FRS 5, Non-current Assets Held for Sale and Discontinued Operations	1 July	2010
- Amendments to FRS 138, Intangible Assets	1 July	2010
- Amendments to FRS 139, Financial Instruments: Recognition and Measurement	1 January	2010
- Amendments to IC Interpretation 9, Reassessment of Embedded Derivatives	1 July	2010

The new requirements above take effect for the annual periods beginning on or after 1 July 2010, except for Amendments to FRS 139 which applies for annual periods beginning on or after 1 January 2010. IC Interpretations 12 and 15 are not expected to have any impact on the Financial Statements of the Bank as they are not relevant to the operations of the Bank. The adoption of the other revised FRSs, amendments to FRSs and IC Interpretations is not expected to have a significant financial impact on the Bank, other than the Amendments to FRS 139.

The Amendments to FRS 139 include an additional transitional arrangement for entities in the financial services sector, whereby BNM may prescribe the use of an alternative basis for collective assessment of impairment for banking institutions. This transitional arrangement is prescribed in BNM guidelines on Classification and Impairment Provisions for Loans/ Financing issued on 8 January 2010, whereby banking institutions are required to maintain collective impairment provisions of at least 1.5% of total outstanding financing, net of individual impairment provision. Subject to the prior written approval from BNM, banking institutions are allowed to maintain a lower collective impairment assessment provision.

(b) Basis of measurement

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

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

2 Basis of Preparation (Cont'd)

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

- Estimation of recoverable amount based on the discounted cash flow methodology for impaired loans (Note 3(i))
- Fair value estimation of financial assets and liabilities (Note 38)

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, unless otherwise stated.

(a) Basis of Consolidation

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

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

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

(b) Revenue

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

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

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

The effective interest/profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability, or where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest/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 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.

3 Significant Accounting Policies (Cont'd)

(c) Recognition of Interest Income and Expense / Islamic Financing Income and Expense (Cont'd)

Where an amount is classified as non-performing, interest accrued and recognised as income prior to the date the loan is classified as non-performing shall be reversed out of income by debiting the interest income in the income statement and crediting the accrued interest receivable account in the balance sheet. Subsequently, interest earned on non-performing loans shall be recognised as income on a cash basis. Customers' accounts are classified as non-performing where repayments are in arrears for more than ninety (90) days for all loans, advances and financing, or once there is objective evidence that the customers' account is impaired, whichever is sooner.

Finance income from Islamic Banking operations and attributable profits on deposits and borrowings on activities relating to Islamic Banking operations are recognised on an accrual basis applying the effective profit rate method in accordance with the principles of Shariah. Finance cost and income attributable on deposits and borrowings relating to Islamic Banking operations are amortised using the effective profit rate method in accordance with the principles of Shariah.

(d) Recognition of Fees and Other Income

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

- if the income is earned on the execution of a significant act, it is recognised as revenue when the significant act has been completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement for the acquisition of shares or other securities);
- if the income is earned as services are provided, it is recognised as revenue as the services are provided (for example, portfolio and other management advisory and service fee); and
- if the income is an integral part of the effective interest/profit rate of a financial instrument, it is recognised as an adjustment to the effective interest/profit rate (for example, loan/financing commitment fees) and recorded in 'interest/finance income' (see Note 3 c).

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

(e) Cash and Cash Equivalents

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

(f) Resale and Repurchase Agreements

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

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

3 Significant Accounting Policies (Cont'd)

(g) *Securities*

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

i Held-for-trading

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

ii Held-to-maturity

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

iii Available-for-sale

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

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

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

If an available-for-sale security carried at cost is determined to be impaired, the amount of impairment loss is measured as the difference between the carrying amount of the securities and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. Such impairment losses shall not be reversed.

3 Significant Accounting Policies (Cont'd)

(g) Securities (Cont'd)

iii Available-for-sale(Cont'd)

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

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

(h) Loans, Advances and Financing

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

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

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

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

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

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

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

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

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

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

3 Significant Accounting Policies (Cont'd)

(i) Allowance for Losses on Loans and Financing/ Loan Impairment (Cont'd)

- ii hundred per cent (100%) of non-performing loans/financing which are in arrears for more than seven (7) years, regardless of any collateral held.
-

(j) Investment in Subsidiary Companies

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

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

(k) Property and Equipment

i. Premises

Premises for own use, comprising freehold land and buildings, and leasehold buildings are stated at valuation less accumulated depreciation and impairment losses.

Land and buildings are revalued with sufficient regularity to ensure that the net carrying amount does not differ materially from fair value. Surpluses arising on revaluation are credited firstly to the income statement to the extent of any deficits arising on revaluation previously charged to the income statement in respect of the same premises, and are thereafter taken to the "Property revaluation reserve". Deficits arising on revaluation are first set off against any previous revaluation surpluses including in the "Property revaluation reserve" in respect of the same premises, and are thereafter recognized in the income statement.

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

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

ii. Equipment

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

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

Additions to other equipment costing RM1,000 and under are fully depreciated in the year of purchase; for those assets costing more than RM1,000, depreciation is provided at the above rates.

(l) Operating Leases – Leasehold Land

The payment made upon entering into or acquiring leasehold land is accounted for as prepaid land lease payments in the balance sheet. In the case of a lease of land and buildings, the prepaid land lease payments are allocated, whenever necessary, between the land element and buildings element of the lease at the inception of the lease in proportion to their relative fair values. The prepaid land lease payments are amortised over the lease term in accordance with the pattern of benefits provided. Prepaid land lease payments are classified as short term where the remaining lease term is 50 years or less and long term where the remaining lease term exceeds 50 years.

3 Significant Accounting Policies (Cont'd)

(m) Intangible Assets

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

(n) Bills and Acceptances Payable

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

(o) Recourse Obligation on Loans Sold to Cagamas Berhad

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

(p) Subordinated Bonds

Subordinated bonds are carried at face value, except for debts which are fair value hedged, which are then disclosed at their fair value. Interest expense on subordinated bonds of the Bank is recognised on an accrual basis.

(q) Taxation and Deferred Taxation

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

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

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

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

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

(r) Derivatives and Hedge Accounting

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

3 Significant Accounting Policies (Cont'd)

(r) Derivatives and Hedge Accounting (Cont'd)

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

i Fair value hedge

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

ii Cash flow hedge

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

(s) Currency Translations

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

(t) Provisions

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

(u) Profit Equalisation Reserves ('PER')

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

(v) Employee Benefits

i Short term employee benefits

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

ii Defined contribution plan

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

4 Cash and Short Term Funds

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institution	434,905	662,280	423,859	625,171
Money at call and deposit placements maturing within one month	11,274,653	7,766,274	11,056,624	6,820,284
	11,709,558	8,428,554	11,480,483	7,445,455

5 Deposits and Placements with Banks and Other Financial Institutions

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Licensed banks	-	6,079	943,057	949,390
Bank Negara Malaysia	100,000	850,000	100,000	850,000
Other financial institutions	42,812	141,735	42,812	141,735
	142,812	997,814	1,085,869	1,941,125

6 Securities Held-for-Trading

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Money market instruments:				
Malaysian Government treasury bills	57,422	320,838	18,110	320,838
Bank Negara Malaysia bills and notes	315,670	1,675,565	315,670	1,675,565
Bank Negara Malaysia Islamic bills	149,490	751,625	149,490	590,274
Malaysian Government securities	458,592	617,346	458,592	617,346
Malaysian Government Islamic bonds	170,838	119,681	82,764	13,294
Cagamas bonds and notes	4,627	4,457	4,627	4,457
	1,156,639	3,489,512	1,029,253	3,221,774
Unquoted securities:				
Private debt securities (including commercial paper)	126,178	1,747	126,178	1,747
	1,282,817	3,491,259	1,155,431	3,223,521

7 Securities Available-for-Sale

	<i>Group</i>		<i>Bank</i>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Money market instruments:				
Malaysian Government treasury bills	174,424	26,671	84,633	17,353
Bank Negara Malaysia Islamic bills	-	99,702	-	99,702
Malaysian Government securities	2,338,447	1,712,984	2,338,447	1,712,984
Malaysian Government Islamic bonds	451,077	648,681	344,736	293,543
Khazanah bonds	47,946	51,096	-	-
Cagamas bonds and notes	35,770	130,500	35,770	130,500
Negotiable instruments of deposit	875,060	320,233	805,055	290,242
Bankers' acceptance and Islamic accepted bills	782,678	697,485	782,678	697,485
	4,705,402	3,687,352	4,391,319	3,241,809
Quoted securities:				
Shares	19,063	18,338	19,063	18,338
Loan stock	5,930	8,534	5,930	8,534
	24,993	26,872	24,993	26,872
Unquoted securities:				
Shares	16,908	36,857	16,908	36,857
Private and Islamic debt securities	117,761	175,446	47,624	55,428
	134,669	212,303	64,532	92,285
Impairment loss:				
Quoted securities in Malaysia:				
Shares	(3,242)	(3,082)	(3,242)	(3,082)
Loan stock	(5,930)	(8,534)	(5,930)	(8,534)
	(9,172)	(11,616)	(9,172)	(11,616)
	4,855,892	3,914,911	4,471,672	3,349,350

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

	<i>Group</i>		<i>Bank</i>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Maturing within one year	2,601,805	2,347,304	2,394,063	1,947,973
One year to three years	1,582,200	971,393	1,475,859	925,181
Three years to five years	374,332	138,025	374,332	138,025
Over five years	147,065	230,630	147,065	230,630
	4,705,402	3,687,352	4,391,319	3,241,809

8 Loans, Advances and Financing

(i) By type

	<i>Group</i>		<i>Bank</i>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Overdrafts	1,343,183	1,641,796	1,338,246	1,640,983
Term loans/ financing				
Housing loans/ financing	9,574,369	9,062,726	9,490,296	9,002,227
Syndicated term loans/ financing	135,712	148,234	135,712	148,234
Hire purchase receivables	224,063	281,575	1,629	1,501
Lease receivables	5,836	13,025	5,560	12,723
Other term loans/ financing	8,881,017	9,087,935	6,580,482	7,130,053
Bills receivable	1,306,227	2,394,848	1,306,227	2,394,848
Trust receipts	500,035	596,460	500,035	596,460
Claims on customers under acceptance credits	2,808,613	2,681,973	2,248,860	1,860,563
Staff loans/ financing	399,693	364,836	396,798	363,538
Credit/ charge cards	2,724,521	2,508,260	2,556,092	2,496,769
Revolving credit	1,633,995	1,805,217	1,633,995	1,805,217
Other loans/ financing	7,993	7,108	7,993	7,108
Less: Unearned income	(90,379)	(135,026)	-	(2,024)
	29,454,878	30,458,967	26,201,925	27,458,200
Less: Allowance for bad and doubtful debts and financing:				
- General	(440,297)	(462,597)	(387,700)	(410,000)
- Specific	(390,789)	(277,100)	(355,406)	(255,961)
Total net loans, advances and financing	28,623,792	29,719,270	25,458,819	26,792,239

(ii) By type of customer

	<i>Group</i>		<i>Bank</i>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Domestic banking institutions	51,859	-	-	-
Domestic non-bank financial institutions				
- Stockbroking companies	152,533	153,735	152,533	153,735
- Others	332	126,224	332	100,232
Domestic business enterprises				
- Small medium enterprises	4,730,388	3,972,736	3,975,954	3,658,030
- Others	8,051,888	10,558,844	6,961,158	8,894,580
Individuals	15,676,524	14,569,770	14,403,309	13,581,205
Other domestic entities	10,269	3,025	6,034	3,025
Foreign entities	781,085	1,074,633	702,605	1,067,393
	29,454,878	30,458,967	26,201,925	27,458,200

(iii) By interest/ profit rate sensitivity

	<i>Group</i>		<i>Bank</i>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Fixed rate				
Housing loans/ financing	242,662	255,221	210,380	205,207
Hire purchase receivables	203,166	252,199	1,629	1,454
Other fixed rate loans/ financing	4,812,852	4,818,735	2,405,735	2,179,834
Variable rate				
BLR plus	19,439,386	20,769,719	19,394,093	20,769,719
Cost-plus	1,633,996	1,805,217	1,633,996	1,805,217
Other variable rates	3,122,816	2,557,876	2,556,092	2,496,769
	29,454,878	30,458,967	26,201,925	27,458,200

8 Loans, Advances and Financing (Cont'd)

(iv) By sector

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Agricultural, hunting, forestry and fishing	845,718	984,605	749,961	860,284
Mining and quarrying	344,177	351,003	328,673	332,473
Manufacturing	5,169,080	5,929,001	4,385,835	5,214,821
Electricity, gas and water	55,183	77,945	47,681	60,585
Construction	764,321	806,572	709,835	741,333
Real estate	1,063,619	705,290	820,427	699,428
Purchase of landed property:				
- Residential	9,975,127	9,484,962	9,897,146	9,434,932
- Non-residential	1,005,847	1,263,006	998,510	1,255,367
Wholesale & retail trade and restaurants & hotels	1,954,204	2,647,329	1,676,138	2,143,651
Transport, storage and communication	368,837	473,358	228,077	262,328
Finance, insurance and business services	1,295,134	2,252,730	1,057,541	1,977,605
Purchase of securities	46,303	39,231	44,947	37,555
Purchase of transport vehicles	50,930	46,826	50,423	46,826
Consumption credit	5,577,650	4,963,151	4,376,167	4,020,871
Others	938,748	433,958	830,564	370,141
	29,454,878	30,458,967	26,201,925	27,458,200

(v) By maturity structure

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Maturing within one year	12,254,415	13,456,044	10,637,402	12,141,340
One year to three years	2,047,274	2,354,820	1,432,530	1,719,213
Three years to five years	2,307,579	2,568,097	1,469,232	1,772,827
Over five years	12,845,610	12,080,006	12,662,761	11,824,820
	29,454,878	30,458,967	26,201,925	27,458,200

9 Non-Performing Loans/ Financing (NPL/ NPF)

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

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
At beginning of year	485,804	438,025	457,328	438,025
Classified as non-performing during the year	711,813	477,390	632,418	455,252
Reclassified as performing	(108,088)	(80,984)	(107,833)	(80,790)
Amount recovered	(181,736)	(177,187)	(171,012)	(173,759)
Amount written off	(270,804)	(187,288)	(221,716)	(174,332)
Amount vested to HSBC Amanah	-	-	-	(22,681)
Other movements	30,247	15,848	22,598	15,613
At end of year	667,236	485,804	611,783	457,328
Specific allowance	(390,789)	(277,100)	(355,406)	(255,961)
Net non-performing loans, advances and financing	276,447	208,704	256,377	201,367

Ratio of net non-performing loans, advances and financing to net loans, advances and financing	1.0%	0.7%	1.0%	0.7%
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9 Non-Performing Loans/ Financing (NPL/ NPF) (Cont'd)

(ii) Movements in allowance for bad and doubtful debts

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
General allowance				
At beginning of year	462,597	401,700	410,000	401,700
Allowance made during the year	12,400	67,497	12,400	67,497
Amount written back during the year	(34,700)	(6,600)	(34,700)	(6,600)
Amount vested to HSBC Amanah	-	-	-	(52,597)
At end of year	440,297	462,597	387,700	410,000
As % of gross loans, advances and financing less specific allowance	1.5%	1.5%	1.5%	1.5%
Specific allowance				
At beginning of year	277,100	218,334	255,961	218,334
Allowance made during the year	379,365	258,569	313,867	240,116
Amount recovered	(44,951)	(37,999)	(33,972)	(36,441)
Amount written off	(250,688)	(177,668)	(202,764)	(164,793)
Other movements	29,963	15,864	22,314	15,629
Amount vested to HSBC Amanah	-	-	-	(16,884)
At end of year	390,789	277,100	355,406	255,961

(iii) Non Performing Loans by sector

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Agricultural, hunting, forestry and fishing	1,246	1,196	1,246	1,196
Manufacturing	110,067	52,690	104,590	52,292
Construction	4,762	4,986	4,762	4,986
Real estate	14,330	14,171	14,134	13,939
Purchase of landed property:				
- Residential	193,158	155,347	191,990	154,237
- Non-residential	32,129	25,163	32,007	25,163
Wholesale & retail trade and restaurants & hotels	68,509	66,533	64,653	62,913
Transport, storage and communication	2,261	3,507	2,261	3,507
Finance, insurance and business services	10,139	6,566	10,083	6,566
Purchase of securities	380	369	380	369
Purchase of transport vehicles	167	270	167	270
Consumption credit	228,588	151,561	184,010	130,228
Others	1,500	3,445	1,500	1,662
	667,236	485,804	611,783	457,328

10 Other Assets

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Derivative financial assets (Note 35)	753,861	1,202,998	743,624	1,196,195
Interest/ income receivable	47,679	55,432	46,382	50,486
Other receivables, deposits and prepayments	333,675	158,691	326,906	177,647
	1,135,215	1,417,121	1,116,912	1,424,328

11 Statutory Deposits with Bank Negara Malaysia

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

12 Investments in Subsidiary Companies

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	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:

<i>Name</i>	<i>Principal activities</i>	<i>Country of incorporation</i>	<i>Percentage of equity held</i>	
			2009	2008
HSBC (Kuala Lumpur) Nominees Sdn Bhd	Nominee company	Malaysia	100%	100%
HSBC Nominees (Tempatan) Sdn Bhd	Nominee company	Malaysia	100%	100%
HSBC Nominees (Asing) Sdn Bhd	Nominee company	Malaysia	100%	100%
HSBC Amanah Malaysia Berhad	Islamic bank	Malaysia	100%	100%

All income and expenditure arising from the activities of subsidiaries which are nominee companies were recognised in the Bank's results.

13 Prepaid Lease Payments

	<i>Group and Bank</i>		
	<i>Unexpired period less than 50 years RM'000</i>	<i>Unexpired period more than 50 years RM'000</i>	<i>Total RM'000</i>
2009			
Cost/ Valuation			
Balance as at 1 January 2009	7,986	13,375	21,361
Reclassification - unexpired period of more than 50 years to less than 50 years	8,412	(8,412)	-
Balance as at 31 December 2009	<u>16,398</u>	<u>4,963</u>	<u>21,361</u>
 Amortisation			
Balance as at 1 January 2009	730	1,080	1,810
Amortisation for the year	351	101	452
Reclassification - unexpired period of more than 50 years to less than 50 years	673	(673)	-
Balance as at 31 December 2009	<u>1,754</u>	<u>508</u>	<u>2,262</u>
 Carrying amount at 31 December 2009	<u>14,644</u>	<u>4,455</u>	<u>19,099</u>
 2008	RM'000	RM'000	RM'000
Cost/ Valuation			
Balance as at 1 January 2008	8,111	14,204	22,315
Disposal	(125)	(829)	(954)
Balance as at 31 December 2008	<u>7,986</u>	<u>13,375</u>	<u>21,361</u>
 Amortisation			
Balance as at 1 January 2008	565	860	1,425
Amortisation for the year	187	277	464
Disposal	(22)	(57)	(79)
Balance as at 31 December 2008	<u>730</u>	<u>1,080</u>	<u>1,810</u>
 Carrying amount at 31 December 2008	<u>7,256</u>	<u>12,295</u>	<u>19,551</u>

As disclosed in Note 14, leasehold land together with the buildings erected thereon were revalued on the open market basis as of 31 December 2009 based on professional valuation.

14 Property and Equipment

	<i>Group</i>							
	<i>Freehold land</i>	<i>Buildings on freehold land</i>	<i>Buildings on short term leasehold land</i>	<i>Buildings on long term leasehold land</i>	<i>Office equipment, fixtures and fittings</i>	<i>Computer equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2009								
Cost or valuation								
Balance as at 1 January 2009	68,500	118,003	4,561	9,998	155,648	122,911	4,037	483,658
Additions	-	3,367	937	-	21,544	7,964	503	34,315
Disposals	-	-	-	-	(174)	(36)	(1,392)	(1,602)
Written off	-	-	-	-	(6,704)	(846)	-	(7,550)
Reclassification	-	-	6,854	(6,854)	-	-	-	-
Downwards revaluation	-	-	(212)	184	-	-	-	(28)
Adjustments for revaluation	6,560	(8,291)	(957)	98	-	-	-	(2,590)
Balance as at 31 December 2009	75,060	113,079	11,183	3,426	170,314	129,993	3,148	506,203
Representing items at:								
Cost	-	-	-	-	170,314	129,993	3,148	303,455
Valuation - 2009	75,060	113,079	11,183	3,426	-	-	-	202,748
	75,060	113,079	11,183	3,426	170,314	129,993	3,148	506,203
Accumulated depreciation								
Balance as at 1 January 2009	-	9,305	471	535	120,552	93,037	1,666	225,566
Charge for the year	-	2,483	275	63	15,574	15,077	687	34,159
Disposals	-	-	-	-	(174)	(30)	(1,209)	(1,413)
Written off	-	-	-	-	(6,622)	(846)	-	(7,468)
Reclassification	-	-	284	(284)	-	-	-	-
Adjustments for revaluation	-	(11,788)	(1,030)	(314)	-	-	-	(13,132)
Balance as at 31 December 2009	-	-	-	-	129,330	107,238	1,144	237,712
Net book value at 31 December 2009	75,060	113,079	11,183	3,426	40,984	22,755	2,004	268,491

The land and buildings of the Group and the Bank were revalued on the open market value basis as of 31 December 2009 based on professional valuation.

14 Property and Equipment (Cont'd)

	<i>Bank</i>							<i>Total</i>
	<i>Freehold land</i>	<i>Buildings on freehold land</i>	<i>Buildings on short term leasehold land</i>	<i>Buildings on long term leasehold land</i>	<i>Office equipment, fixtures and fittings</i>	<i>Computer equipment</i>	<i>Motor vehicles</i>	
2009	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost or valuation								
Balance as at 1 January 2009	68,500	118,003	4,561	9,998	155,068	120,827	3,660	480,617
Additions	-	3,367	937	-	16,285	6,526	616	27,731
Disposals	-	-	-	-	(174)	(36)	(1,221)	(1,431)
Written off	-	-	-	-	(6,662)	(846)	-	(7,508)
Reclassification	-	-	6,854	(6,854)	-	-	-	-
Downwards revaluation	-	-	(212)	184	-	-	-	(28)
Adjustments for revaluation	6,560	(8,291)	(957)	98	-	-	-	(2,590)
Balance as at 31 December 2009	75,060	113,079	11,183	3,426	164,517	126,471	3,055	496,791
Representing items at:								
Cost	-	-	-	-	164,517	126,471	3,055	294,043
Valuation - 2009	75,060	113,079	11,183	3,426	-	-	-	202,748
	75,060	113,079	11,183	3,426	164,517	126,471	3,055	496,791
Accumulated depreciation								
Balance as at 1 January 2009	-	9,305	471	535	120,273	92,977	1,447	225,008
Charge for the year	-	2,483	275	63	14,714	14,415	656	32,606
Disposals	-	-	-	-	(174)	(30)	(1,052)	(1,256)
Written off	-	-	-	-	(6,580)	(846)	-	(7,426)
Reclassification	-	-	284	(284)	-	-	-	-
Adjustments for revaluation	-	(11,788)	(1,030)	(314)	-	-	-	(13,132)
Balance as at 31 December 2009	-	-	-	-	128,233	106,516	1,051	235,800
Net book value at 31 December 2009	75,060	113,079	11,183	3,426	36,284	19,955	2,004	260,991

The land and buildings of the Group and the Bank were revalued on the open market value basis as of 31 December 2009 based on professional valuation.

14 Property and Equipment (Cont'd)

2008	<i>Group</i>							
	<i>Freehold land</i>	<i>Buildings on freehold land</i>	<i>Buildings on short term leasehold land</i>	<i>Buildings on long term leasehold land</i>	<i>Office equipment, fixtures and fittings</i>	<i>Computer equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost or valuation								
Balance as at 1 January 2008	68,500	114,190	5,688	10,228	146,805	115,287	4,393	465,091
Additions	-	3,813	-	-	16,844	10,217	1,664	32,538
Disposals	-	-	(1,127)	(230)	(93)	(929)	(2,020)	(4,399)
Written off	-	-	-	-	(7,908)	(1,664)	-	(9,572)
Balance as at 31 December 2008	<u>68,500</u>	<u>118,003</u>	<u>4,561</u>	<u>9,998</u>	<u>155,648</u>	<u>122,911</u>	<u>4,037</u>	<u>483,658</u>
Representing items at:								
Cost	-	-	-	-	155,648	122,911	4,037	282,596
Valuation - 2004	68,500	118,003	4,561	9,998	-	-	-	201,062
	<u>68,500</u>	<u>118,003</u>	<u>4,561</u>	<u>9,998</u>	<u>155,648</u>	<u>122,911</u>	<u>4,037</u>	<u>483,658</u>
Accumulated depreciation								
Balance as at 1 January 2008	-	6,936	464	344	116,172	80,503	2,382	206,801
Charge for the year	-	2,369	160	207	12,098	15,088	800	30,722
Disposals	-	-	(153)	(16)	(92)	(894)	(1,516)	(2,671)
Written off	-	-	-	-	(7,626)	(1,660)	-	(9,286)
Balance as at 31 December 2008	<u>-</u>	<u>9,305</u>	<u>471</u>	<u>535</u>	<u>120,552</u>	<u>93,037</u>	<u>1,666</u>	<u>225,566</u>
Net book value at 31 December 2008	<u>68,500</u>	<u>108,698</u>	<u>4,090</u>	<u>9,463</u>	<u>35,096</u>	<u>29,874</u>	<u>2,371</u>	<u>258,092</u>

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

14 Property and Equipment (Cont'd)

2008	<i>Bank</i>							<i>Total</i>
	<i>Freehold land</i>	<i>Buildings on freehold land</i>	<i>Buildings on short term leasehold land</i>	<i>Buildings on long term leasehold land</i>	<i>Office equipment, fixtures and fittings</i>	<i>Computer equipment</i>	<i>Motor vehicles</i>	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost or valuation								
Balance as at 1 January 2008	68,500	114,190	5,688	10,228	146,805	115,287	4,393	465,091
Additions	-	3,813	-	-	16,653	8,137	1,664	30,267
Disposals	-	-	(1,127)	(230)	(93)	(929)	(2,020)	(4,399)
Written off	-	-	-	-	(7,908)	(1,664)	-	(9,572)
Amount vested to HSBC Amanah	-	-	-	-	(389)	(4)	(377)	(770)
Balance as at 31 December 2008	68,500	118,003	4,561	9,998	155,068	120,827	3,660	480,617
Representing items at:								
Cost	-	-	-	-	155,068	120,827	3,660	279,555
Valuation - 2004	68,500	118,003	4,561	9,998	-	-	-	201,062
	68,500	118,003	4,561	9,998	155,068	120,827	3,660	480,617
Accumulated depreciation								
Balance as at 1 January 2008	-	6,936	464	344	116,172	80,503	2,382	206,801
Charge for the year	-	2,369	160	207	12,048	15,032	769	30,585
Disposals	-	-	(153)	(16)	(92)	(894)	(1,516)	(2,671)
Written off	-	-	-	-	(7,626)	(1,660)	-	(9,286)
Amount vested to HSBC Amanah	-	-	-	-	(229)	(4)	(188)	(421)
Balance as at 31 December 2008	-	9,305	471	535	120,273	92,977	1,447	225,008
Net book value at 31 December 2008	68,500	108,698	4,090	9,463	34,795	27,850	2,213	255,609

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

15 Intangible Assets

	<u>Group</u>	<u>Bank</u>
	<i>Computer software</i>	
	RM'000	RM'000
2009		
Cost		
Balance as at 1 January 2009	104,849	100,528
Additions	28,516	26,970
Written off	(601)	(601)
Balance as at 31 December 2009	<u>132,764</u>	<u>126,897</u>
Accumulated depreciation		
Balance as at 1 January 2009	53,696	50,739
Charge for the year	22,482	21,795
Written off	(601)	(601)
Balance as at 31 December 2009	<u>75,577</u>	<u>71,933</u>
Net book value at 31 December 2009	<u>57,187</u>	<u>54,964</u>
	<u>Group</u>	<u>Bank</u>
	<i>Computer software</i>	
	RM'000	RM'000
2008		
Cost		
Balance as at 1 January 2008	78,245	78,245
Additions	27,046	25,411
Written off	(442)	(442)
Amount vested to HSBC Amanah	-	(2,686)
Balance as at 31 December 2008	<u>104,849</u>	<u>100,528</u>
Accumulated depreciation		
Balance as at 1 January 2008	36,376	36,376
Charge for the year	17,761	17,381
Written off	(441)	(441)
Amount vested to HSBC Amanah	-	(2,577)
Balance as at 31 December 2008	<u>53,696</u>	<u>50,739</u>
Net book value at 31 December 2008	<u>51,153</u>	<u>49,789</u>

16 Deferred Tax

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

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Deferred tax liabilities	(19,748)	(19,529)	(18,807)	(18,824)
Deferred tax assets	102,429	106,298	87,604	90,390
	82,681	86,769	68,797	71,566

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

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

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment				
- capital allowances	(17,533)	(18,836)	(16,749)	(18,536)
- revaluation	(18,807)	(18,824)	(18,807)	(18,824)
Available-for-sale reserve	3,801	888	3,947	1,271
Allowances				
- general allowance	110,074	120,275	96,925	106,600
- others	5,205	2,970	3,529	736
Lease receivables	(59)	296	(48)	319
	82,681	86,769	68,797	71,566

16 Deferred tax (Cont'd)

Movement in temporary differences during the year

	<i>Group</i>									
	<i>As at 01-Jan-08</i>	<i>Recognised in income statement</i>	<i>Effect of change in tax rate</i>	<i>Recognised in equity</i>	<i>Amount vested to HSBC Amanah</i>	<i>As at 31-Dec-08/ 01-Jan-09</i>	<i>Recognised in income statement</i>	<i>Effect of change in tax rate</i>	<i>Recognised in equity</i>	<i>As at 31-Dec-09</i>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment										
- capital allowances	(6,520)	(12,557)	241	-	-	(18,836)	579	724	-	(17,533)
- revaluation	(20,177)	537	-	816	-	(18,824)	266	-	(249)	(18,807)
Available for sale reserves	(15,293)	-	-	16,181	-	888	-	-	2,913	3,801
Allowances										
- general allowance	108,459	15,833	(4,017)	-	-	120,275	(5,575)	(4,626)	-	110,074
- others	2,369	687	(86)	-	-	2,970	2,349	(114)	-	5,205
Lease receivables	837	(510)	(31)	-	-	296	(343)	(12)	-	(59)
	69,675	3,990	(3,893)	16,997	-	86,769	(2,724)	(4,028)	2,664	82,681

Bank

	<i>Bank</i>									
	<i>As at 01-Jan-08</i>	<i>Recognised in income statement</i>	<i>Effect of change in tax rate</i>	<i>Recognised in equity</i>	<i>Amount vested to HSBC Amanah</i>	<i>As at 31-Dec-08/ 01-Jan-09</i>	<i>Recognised in income statement</i>	<i>Effect of change in tax rate</i>	<i>Recognised in equity</i>	<i>As at 31-Dec-09</i>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment										
- capital allowances	(6,520)	(12,257)	241	-	-	(18,536)	1,074	713	-	(16,749)
- revaluation	(20,177)	537	-	816	-	(18,824)	266	-	(249)	(18,807)
Available for sale reserves	(15,293)	-	-	16,564	-	1,271	-	-	2,676	3,947
Allowances										
- general allowance	108,459	15,833	(4,017)	-	(13,675)	106,600	(5,575)	(4,100)	-	96,925
- others	2,369	687	(86)	-	(2,234)	736	2,821	(28)	-	3,529
Lease receivables	837	(487)	(31)	-	-	319	(354)	(13)	-	(48)
	69,675	4,313	(3,893)	17,380	(15,909)	71,566	(1,768)	(3,428)	2,427	68,797

17 Deposits from Customers

(i) By type of deposit

	<i>Group</i>		<i>Bank</i>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Demand deposits	10,254,916	8,344,255	10,126,661	8,277,081
Savings deposits	7,089,713	5,730,478	6,581,567	5,288,679
Fixed / Investment deposits	21,758,455	22,039,043	20,123,308	19,530,225
Negotiable instruments of deposit	417,289	670,896	417,289	670,896
Wholesale money market deposits	2,521,745	2,243,972	2,521,745	2,243,972
Others	2,644,240	1,924,828	2,443,398	1,698,299
	44,686,358	40,953,472	42,213,968	37,709,152

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

	<i>Group</i>		<i>Bank</i>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Due within six months	17,184,934	17,350,657	15,824,484	15,411,144
Six months to one year	4,553,680	4,913,129	4,280,602	4,367,735
One year to three years	256,385	262,807	255,924	239,186
Three years to five years	180,745	183,346	179,587	183,056
	22,175,744	22,709,939	20,540,597	20,201,121

(ii) By type of customer

	<i>Group</i>		<i>Bank</i>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Government and statutory bodies	90,038	151,249	14,922	36,974
Business enterprises	16,197,083	15,108,552	15,457,644	13,776,791
Individuals	21,849,408	20,550,413	20,588,871	19,121,629
Others	6,549,829	5,143,258	6,152,531	4,773,758
	44,686,358	40,953,472	42,213,968	37,709,152

18 Deposits and Placements of Banks and Other Financial Institutions

	<i>Group</i>		<i>Bank</i>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Bank Negara Malaysia	59,551	66,797	59,551	66,797
Other financial institutions	2,760,087	3,464,675	2,650,471	3,464,675
	2,819,638	3,531,472	2,710,022	3,531,472

19 Other Liabilities

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Derivative financial liabilities	618,732	1,037,442	608,495	1,030,639
Interest/ profit payable	152,594	207,900	144,551	193,789
Allowance for commitments and contingencies	2,440	2,014	2,440	2,014
Profit equalisation reserve	6,700	6,700	-	-
Other creditors and accruals	1,041,464	1,315,663	1,363,164	1,388,063
	1,821,930	2,569,719	2,118,650	2,614,505

Movement in allowance for commitments and contingencies is as follows:

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
At beginning of year	2,014	2,245	2,014	2,245
Allowance made during the year	1,103	60	1,103	60
Amount released	(677)	(291)	(677)	(291)
	426	(231)	426	(231)
At end of year	2,440	2,014	2,440	2,014

20 Provision for Taxation and Zakat

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Taxation	37,653	41,090	33,986	41,090
Zakat	120	70	-	-
	37,773	41,160	33,986	41,090

21 Subordinated Bonds

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Subordinated bonds, at par	1,000,000	1,000,000	1,000,000	1,000,000
Fair value changes arising from fair value hedge	385	27,338	385	27,338
	1,000,385	1,027,338	1,000,385	1,027,338

The outstanding Subordinated bonds relate to the RM 1 billion Subordinated bonds issued in 2007 via 2 tranches:

- 4.35% coupon rate for RM 500 million due 2022 callable with a 100 bp step up coupon in 2017
- 5.05% coupon rate for RM 500 million due 2027 callable with a 100 bp step up coupon in 2022

The Bank has undertaken fair value hedge on the interest rate risk on a portion of each of the above two tranches of Subordinated bonds using interest rate swaps. Total amount of Subordinated bonds hedged is RM 420 million.

22 Share Capital

	<i>Group</i>		<i>Bank</i>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Authorised				
Ordinary shares of RM0.50 each	500,000	500,000	500,000	500,000
Preference shares of RM0.50 each	500,000	500,000	500,000	500,000
	1,000,000	1,000,000	1,000,000	1,000,000
Issued and Fully Paid				
Ordinary shares of RM0.50 each	114,500	114,500	114,500	114,500

23 Reserves

	<i>Group</i>		<i>Bank</i>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Share premium	741,375	741,375	741,375	741,375
Statutory reserve	154,604	125,861	114,500	114,500
Revaluation reserve	133,016	122,723	133,016	122,723
Capital redemption reserve	190,000	190,000	190,000	190,000
Available-for-sale reserve	(11,406)	(2,528)	(11,843)	(3,619)
Retained profits	2,311,994	2,135,618	2,271,891	2,124,258
	3,519,583	3,313,049	3,438,939	3,289,237

The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and Section 15(1) of the Islamic Banking Act, 1983 for the Bank and its Islamic subsidiary respectively, and is not distributable as cash dividends.

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

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

The Finance Act, 2007 introduced a single tier company income tax system with effect from 1 January 2007. As such, the remaining Section 108 tax credit as at 31 December 2009 will be available to the Bank until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

24 Interest Income

	<i>Group</i>		<i>Bank</i>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Loans and advances				
- Interest income other than recoveries from NPLs	1,344,773	1,574,611	1,344,773	1,574,611
- Recoveries from NPLs	31,164	30,337	31,164	30,337
Money at call and deposit placements with financial institutions	282,525	505,778	285,889	505,778
Securities available-for-sale	115,105	69,793	115,105	69,793
Others	24,377	2,074	45,343	13,895
	1,797,944	2,182,593	1,822,274	2,194,414
Amortisation of premium less accretion of discounts	(16,098)	20,587	(16,098)	20,587
Interest suspended	(23,553)	(23,178)	(23,553)	(23,178)
Total interest income	1,758,293	2,180,002	1,782,623	2,191,823

25 Interest Expense

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Deposits and placements of banks and other financial institutions	29,406	85,254	29,406	85,254
Deposits from customers	623,363	841,134	623,363	841,134
Loans sold to Cagamas	30,719	34,411	30,719	34,411
Subordinated bonds	47,000	47,129	47,000	47,129
Others	7,043	4,898	7,043	4,898
	737,531	1,012,826	737,531	1,012,826

26 Other Operating Income

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Fees and commissions	405,813	384,248	405,813	384,248
Net gains arising from sale of securities				
- Securities held-for-trading and other financial instruments	10,043	45,125	10,043	45,125
- Securities available-for-sale	28,438	62,611	28,438	62,611
Net interest income from trading securities	56,248	55,637	56,248	55,637
Net unrealised gains/(losses) on revaluation of trading securities	11,199	(4,793)	11,199	(4,793)
Net gains arising from dealing in foreign currency	351,301	324,678	351,301	324,678
Net unrealised (losses)/gains from dealing in foreign currency	(30,123)	65,907	(30,123)	65,907
Net gains arising from trading in derivatives	116	10,007	116	10,007
Net unrealised gains on revaluation of derivatives	36,253	53,709	36,253	53,709
Dividend income from available-for-sale shares				
- Unquoted in Malaysia	1,753	2,267	1,753	2,267
Rental income	6,955	6,519	6,955	6,519
Net downwards revaluation on property	(28)	-	(28)	-
Net gains/(losses) on disposal of property and equipment	312	(107)	312	(107)
Net losses on disposal of investments	-	(118)	-	(118)
Other operating income	28,848	21,101	107,696	46,886
	907,128	1,026,791	985,976	1,052,576

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

Cards	188,359	168,269	188,359	168,269
Service charges and fees	109,523	115,985	109,523	115,985
Agency fees	33,500	30,550	33,500	30,550
Credit facilities	31,673	29,443	31,673	29,443

27 Income from Islamic Banking

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of depositor funds and others	248,760	317,598	-	205,025
Income derived from investment of shareholders funds	73,421	-	-	-
Profit equalisation reserve	-	(1,000)	-	(1,000)
Income attributable to the depositors	(50,985)	(141,317)	-	(102,945)
Income attributable to special placement deposits by Head Office	-	21,139	-	21,139
	271,196	196,420	-	122,219
Income derived from the investment of Islamic banking capital funds	-	61,529	-	35,780
Income from Islamic Banking operations	271,196	257,949	-	157,999

28 Other Operating Expenses

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Personnel expenses	541,271	502,766	525,422	497,368
Promotion and marketing related expenses	72,626	65,668	56,864	62,926
Establishment related expenses	122,881	120,352	115,162	119,085
General administrative expenses	311,033	322,852	307,213	317,226
	1,047,811	1,011,638	1,004,661	996,605

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

Personnel expenses				
Salaries, allowances and bonuses	401,869	381,627	387,902	377,413
Employees Provident Fund contributions	68,554	67,375	66,672	66,706
Promotion and marketing related expenses				
Advertising and promotion	55,328	44,744	39,566	42,002
Establishment related expenses				
Depreciation of property and equipment	34,159	30,722	32,606	30,585
Amortisation of prepaid lease payments	452	464	452	464
Amortisation of intangible assets	22,482	17,761	21,795	17,381
Information technology costs	13,713	16,259	13,361	16,173
Hire of equipment	7,682	7,099	7,566	7,095
Rental of premises	23,513	17,970	19,426	17,465
Property and equipment written off	82	286	82	286
Intangible assets written off	-	1	-	1
General administrative expenses				
Intercompany expenses	226,941	204,392	224,166	201,442
Fees and commissions paid	4,988	4,412	4,988	4,412
Auditors' remuneration				
-Statutory audit	405	405	355	355
-Other services	299	207	261	197

29 Allowance for Losses on Loans and Financing

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Allowance for bad and doubtful debts on loans and financing				
(a) Specific allowance				
- Made in the financial year	379,365	258,569	313,867	240,116
- Written back	(44,951)	(37,999)	(33,972)	(36,441)
(b) General allowance				
- Made in the financial year	12,400	67,497	12,400	67,497
- Written back	(34,700)	(6,600)	(34,700)	(6,600)
Bad debts on loans and financing				
- Recovered	(73,750)	(67,924)	(65,506)	(66,328)
- Written off	20,116	9,686	18,951	9,538
Allowance for losses on commitments and contingencies				
- Made in the financial year	1,228	60	1,228	60
- Written back	(801)	(291)	(801)	(291)
	258,907	222,998	211,467	207,551

30 Taxation and Zakat

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax	220,673	326,950	202,337	318,200
Deferred tax				
Origination and reversal of temporary differences	2,724	(3,990)	1,768	(4,313)
Effect of change in tax rate	4,028	3,893	3,428	3,893
	227,425	326,853	207,533	317,780
Under/(over) provision in respect of prior years	137	(9,000)	137	(9,000)
	227,562	317,853	207,670	308,780
Zakat	50	70	-	-
	227,612	317,923	207,670	308,780

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

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Profit before taxation	882,731	1,217,280	805,303	1,185,416
Income tax using Malaysian tax rates (25%) (2008: 26%)	220,683	316,493	201,326	308,208
Non-deductible expenses	8,736	22,344	8,409	21,540
Tax exempt income	(6,022)	(15,877)	(5,630)	(15,861)
Effect of changes in tax rate*	4,028	3,893	3,428	3,893
Under/ (over) provision in respect of prior years	137	(9,000)	137	(9,000)
Tax expense	227,562	317,853	207,670	308,780

* The corporate tax rates are 26% for the year of assessment 2008 and 25% for the subsequent years of assessment. Consequently, deferred tax assets and liabilities are measured using these tax rates.

31 Earnings per Share

The earnings per ordinary share have been calculated based on the net profit and 229,000,000 (2008: 229,000,000) ordinary shares of RM0.50 each in issue during the year.

32 Significant Related Party Transactions and Balances

Parties are considered to be related if : -

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

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

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

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

	<i>Group</i>			
	2009		2008	
	<i>Parent companies</i>	<i>Other related companies</i>	<i>Parent companies</i>	<i>Other related companies</i>
	RM'000	RM'000	RM'000	RM'000
<u>Income</u>				
Interest/profit on intercompany placements	21,267	508	-	17,881
Interest/profit on current accounts	-	1	-	6,202
Fees and commission	7,072	19,188	-	20,261
Other income	396	18,792	-	14,829
	28,735	38,489	-	59,173
<u>Expenditure</u>				
Interest/profit on intercompany deposits	4,359	2,452	-	20,766
Interest/profit on current accounts	26	615	-	965
Fees and commission	149	3,602	-	4,273
Operating expenses	208,113	18,829	42,879	161,513
	212,647	25,498	42,879	187,517
<u>Amount due from</u>				
Intercompany placements	1,595,908	-	-	665,373
Current account balances	18,492	122,739	-	211,558
Other assets	107,341	69,246	-	36,856
	1,721,741	191,985	-	913,787
<u>Amount due to</u>				
Intercompany deposits	1,165,315	373,895	-	960,923
Current account balances	11,010	104,260	-	141,296
Other liabilities	271,751	139,373	13,225	260,782
	1,448,076	617,528	13,225	1,363,001

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

	<i>Bank</i>			
	2009		2008	
	<i>Parent companies RM'000</i>	<i>Other related companies RM'000</i>	<i>Parent companies RM'000</i>	<i>Other related companies RM'000</i>
<u>Income</u>				
Interest on intercompany placements	21,267	24,839	-	29,702
Interest on current accounts	-	-	-	6,202
Fees and commission	7,072	17,089	-	19,742
Other income	396	97,640	-	40,614
	28,735	139,568	-	96,260
<u>Expenditure</u>				
Interest on intercompany deposits	4,359	1,337	-	20,233
Profit attributable to intercompany deposits	-	-	-	49
Interest on current accounts	26	615	-	965
Fees and commission	149	3,599	-	4,273
Operating expenses	208,085	16,081	42,879	158,563
	212,619	21,632	42,879	184,083
<u>Amount due from</u>				
Intercompany placements	1,595,908	1,401,291	-	1,634,668
Current account balances	18,492	118,549	-	183,995
Other assets	107,341	70,821	-	63,430
	1,721,741	1,590,661	-	1,882,093
<u>Amount due to</u>				
Intercompany deposits	1,165,315	34,631	-	754,816
Current account balances	11,010	101,388	-	137,966
Other liabilities	271,579	491,610	13,196	361,027
	1,447,904	627,629	13,196	1,253,809

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

Outstanding loan and advances balances due by the key management personnel of the Group and the Bank as at 31 December 2009 amount to RM148,842 (2008: RM127,982) and RM52,915 (2008: RM119,867) respectively.

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

(b) Key Management Personnel Compensation

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

	<i>Group</i>		<i>Bank</i>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Executive Directors and CEO				
<u>Short-term employee benefits</u>				
Salary and other remuneration	4,119	3,362	3,437	3,216
Bonuses	2,508	1,800	2,296	1,800
Benefits-in-kind	269	768	269	768
	6,896	5,930	6,002	5,784
Post-employment benefits	493	48	493	48
Share-based payment	61	515	61	515
	7,450	6,493	6,556	6,347
Non-Executive Directors				
<u>Short-term employee benefits</u>				
Fees	918	564	534	479
	918	564	534	479

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

	<i>Group</i>		<i>Bank</i>	
	<i>Number of Directors</i>		<i>Number of Directors</i>	
	2009	2008	2009	2008
Executive Directors				
RM3,900,001 - RM3,950,000	1	-	1	-
RM3,400,001 - RM3,450,000	-	1	-	1
RM2,600,001 - RM2,650,000	1	-	1	-
RM2,450,001 - RM2,500,000	-	1	-	1
RM 850,001 - RM900,000	1	-	-	-
RM 450,001 - RM500,000	-	1	-	1
RM 100,001 - RM150,000	-	1	-	-
RM50,000 and below	1	-	1	-
	4	4	3	3
Non-Executive Directors				
RM50,001 - RM100,000	12	6	7	6
RM50,000 and below	-	6	-	1
	12	12	7	7

33 Credit exposure to connected parties

The credit exposures of the Bank to connected parties, as defined by Bank Negara Malaysia's 'Guidelines on Credit Transactions and Exposures with Connected Parties' are as follows:-

	<i>Group</i>		<i>Bank</i>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Aggregate value of outstanding credit exposures to connected parties	365,114	263,340	364,923	263,340
As a percentage of total credit exposures	1.0%	0.7%	1.1%	0.7%
Aggregate value of total outstanding credit exposures to connected parties which is non-performing or in default	-	-	-	-
As a percentage of total credit exposures	-	-	-	-

34 Capital Adequacy

	<i>Group</i>	
	2009 RM'000	2008 RM'000
Tier 1 capital		
Paid-up ordinary share capital	114,500	114,500
Share premium	741,375	741,375
Capital redemption reserve	190,000	190,000
Retained profits (including proposed dividend)	2,561,994	2,285,618
Statutory reserve	154,604	125,861
	3,762,473	3,457,354
Less: Deferred tax adjustments	(97,687)	(104,705)
Total Tier 1 capital	3,664,786	3,352,649
Tier 2 capital		
Subordinated bonds	1,000,385	1,027,338
Revaluation reserves	77,223	71,952
General allowance for bad and doubtful debts and financing	440,297	462,597
Total Tier 2 capital	1,517,905	1,561,887
Total capital	5,182,691	4,914,536
Less: Investment in subsidiaries	-	-
Capital base	5,182,691	4,914,536
Core capital ratio	11.1%	9.2%
Risk-weighted capital ratio	15.8%	13.4%
Core capital ratio (net of proposed dividend)	10.4%	8.8%
Risk-weighted capital ratio (net of proposed dividend)	15.0%	13.0%

The capital ratios have been computed in accordance with the Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF" from 2008 onwards.

Breakdown of gross risk-weighted assets ("RWA") in the various categories of risk-weights:

	<i>Group</i>			
	2009		2008	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
Total RWA for credit risk	63,293,707	27,030,500	59,410,520	30,607,350
Total RWA for market risk	-	1,558,720	-	1,912,233
Total RWA for operational risk	-	4,299,805	-	4,035,680
	63,293,707	32,889,025	59,410,520	36,555,263

34 Capital Adequacy (Cont'd)

	<i>Bank</i>	
	2009	2008
	RM'000	RM'000
Tier 1 capital		
Paid-up ordinary share capital	114,500	114,500
Share premium	741,375	741,375
Capital redemption reserve	190,000	190,000
Retained profits (including proposed dividend)	2,521,891	2,274,258
Statutory reserve	114,500	114,500
	<u>3,682,266</u>	<u>3,434,633</u>
Less: Deferred tax adjustments	(99,566)	(105,028)
Total Tier 1 capital	<u>3,582,700</u>	<u>3,329,605</u>
Tier 2 capital		
Subordinated bonds	1,000,385	1,027,338
Revaluation reserves	77,223	71,952
General allowance for bad and doubtful debts and financing	387,700	410,000
Total Tier 2 capital	<u>1,465,308</u>	<u>1,509,290</u>
Total capital	<u>5,048,008</u>	<u>4,838,895</u>
Less: Investment in subsidiaries	(660,021)	(660,021)
Capital base	<u>4,387,987</u>	<u>4,178,874</u>
Core capital ratio	11.8%	9.8%
Risk-weighted capital ratio	14.5%	12.3%
Core capital ratio (net of proposed dividend)	11.0%	9.4%
Risk-weighted capital ratio (net of proposed dividend)	13.7%	11.9%

The capital ratios have been computed in accordance with the Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF" from 2008 onwards.

Breakdown of gross risk-weighted assets ("RWA") in the various categories of risk-weights:

	<i>Bank</i>			
	2009		2008	
	Principal	Risk-weighted	Principal	Risk-weighted
	RM'000	RM'000	RM'000	RM'000
Total RWA for credit risk	60,002,149	24,575,852	55,262,515	27,974,288
Total RWA for market risk	-	1,534,062	-	1,871,762
Total RWA for operational risk	-	4,161,243	-	3,994,726
	<u>60,002,149</u>	<u>30,271,157</u>	<u>55,262,515</u>	<u>33,840,776</u>

34 Capital Adequacy (Cont'd)

2009

Group

Exposure Class	Gross Exposures	Net Exposures	Risk Weighted Assets (RWA)	Total RWA after PSIA	Capital Requirement
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
<u>Credit Risk</u>					
<i>On-Balance Sheet Exposures</i>					
Sovereigns/Central Banks	19,032,088	19,032,088	-	-	-
Banks, Development Financial Institutions & MDBs	5,431,925	5,431,925	1,137,143	1,137,143	90,971
Corporates	11,098,141	10,732,615	9,977,681	9,977,681	798,214
Regulatory Retail	6,421,294	6,227,764	4,626,957	4,626,957	370,157
Residential Mortgages	13,034,443	13,030,142	5,235,805	5,235,805	418,864
Higher Risk Assets	1,531	1,531	2,296	2,296	184
Other Assets	808,875	808,875	611,466	611,466	48,917
Equity Exposure	35,971	35,971	35,971	35,971	2,878
Defaulted Exposures	460,702	451,921	508,841	508,841	40,707
Total for On-Balance Sheet Exposures	56,324,970	55,752,832	22,136,160	22,136,160	1,770,892
<i>Off-Balance Sheet Exposures</i>					
OTC Derivatives	2,245,463	2,245,463	1,002,542	1,002,542	80,203
Off balance sheet exposures other than OTC derivatives or credit derivatives	4,683,326	4,573,647	3,838,745	3,838,745	307,100
Defaulted Exposures	39,948	35,570	53,053	53,053	4,244
Total for Off-Balance Sheet Exposures	6,968,737	6,854,680	4,894,340	4,894,340	391,547
Total On and Off-Balance Sheet Exposures	63,293,707	62,607,512	27,030,500	27,030,500	2,162,439
<u>Large Exposures Risk Requirement</u>					
	-	-	-	-	-
<u>Market Risk</u>					
	<u>Long Position</u>	<u>Short Position</u>			
Interest Rate Risk	47,252,664	45,868,530	1,384,134	1,469,137	117,531
Foreign Currency Risk	36,058	17,467	36,058	36,058	2,885
Option Risk	-	-	-	53,525	4,282
	47,288,722	45,885,997	1,420,192	1,558,720	124,698
Operational Risk	-	-	-	4,299,805	343,984
Total RWA and Capital Requirement	-	-	-	32,889,025	2,631,121

The table above discloses the gross and net exposures, risk weighted assets and capital requirements for credit risk, market risk, large exposures risk and operational risk of the Group as at balance sheet date. The following disclosure requirement came into effect in 2008 with the adoption of the Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF".

Note:

PSIA - Profit Sharing Investment Account

MDBs - Multilateral Development Banks

OTC - Over the counter

34 Capital Adequacy (Cont'd)

2009

Bank

Exposure Class	Gross Exposures (RM'000)	Net Exposures (RM'000)	Risk Weighted Assets (RWA) (RM'000)	Total RWA after PSIA (RM'000)	Capital Requirement (RM'000)
<u>Credit Risk</u>					
<i>On-Balance Sheet Exposures</i>					
Sovereigns/Central Banks	18,124,942	18,124,942	-	-	-
Banks, Development Financial Institutions & MDBs	6,322,587	6,322,587	1,477,919	1,477,919	118,234
Corporates	9,352,388	8,989,901	8,311,482	8,311,482	664,919
Regulatory Retail	5,055,649	4,868,666	3,607,959	3,607,959	288,637
Residential Mortgages	12,957,960	12,953,659	5,178,442	5,178,442	414,275
Higher Risk Assets	1,531	1,531	2,296	2,296	184
Other Assets	1,098,637	1,098,637	901,228	901,228	72,098
Equity Exposure	35,971	35,971	35,971	35,971	2,878
Defaulted Exposures	439,001	430,222	478,570	478,570	38,286
Total for On-Balance Sheet Exposures	53,388,666	52,826,116	19,993,867	19,993,867	1,599,511
<i>Off-Balance Sheet Exposures</i>					
OTC Derivatives	2,225,247	2,225,247	998,499	998,499	79,880
Off balance sheet exposures other than OTC derivatives or credit derivatives	4,348,296	4,238,617	3,530,441	3,530,441	282,435
Defaulted Exposures	39,940	35,562	53,045	53,045	4,244
Total for Off-Balance Sheet Exposures	6,613,483	6,499,426	4,581,985	4,581,985	366,559
Total On and Off-Balance Sheet Exposures	60,002,149	59,325,542	24,575,852	24,575,852	1,966,070
<u>Large Exposures Risk Requirement</u>					
	-	-	-	-	-
<u>Market Risk</u>					
	<u>Long Position</u>	<u>Short Position</u>			
Interest Rate Risk	47,125,278	45,868,530	1,256,748	1,449,249	115,940
Foreign Currency Risk	31,288	17,467	31,288	31,288	2,503
Option Risk	-	-	-	53,525	4,282
	47,156,566	45,885,997	1,288,036	1,534,062	122,725
Operational Risk	-	-	-	4,161,243	332,899
Total RWA and Capital Requirement	-	-	-	30,271,157	2,421,694

The table above discloses the gross and net exposures, risk weighted assets and capital requirements for credit risk, market risk, large exposures risk and operational risk of the Bank as at balance sheet date. The following disclosure requirement came into effect in 2008 with the adoption of the Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF".

Note:

PSIA - Profit Sharing Investment Account

MDBs - Multilateral Development Banks

OTC - Over the counter

34 Capital Adequacy (Cont'd)

2008

Group

Exposure Class	Gross Exposures (RM'000)	Net Exposures (RM'000)	Risk Weighted Assets (RWA) (RM'000)	Total RWA after PSIA (RM'000)	Capital Requirement (RM'000)
<u>Credit Risk</u>					
<i>On-Balance Sheet Exposures</i>					
Sovereigns/Central Banks	14,912,505	14,912,505	-	-	-
Banks, Development Financial Institutions & MDBs	2,940,460	2,940,460	591,914	591,914	47,353
Corporates	13,556,322	13,116,802	12,352,950	12,352,950	988,236
Regulatory Retail	6,355,649	6,133,418	4,580,314	4,580,314	366,425
Residential Mortgages	11,560,324	11,553,391	4,542,672	4,542,672	363,414
Higher Risk Assets	819	819	1,228	1,228	98
Other Assets	847,425	847,425	637,698	637,698	51,016
Equity Exposure	66,814	66,814	66,814	66,814	5,345
Defaulted Exposures	521,480	517,438	603,825	603,825	48,306
Total for On-Balance Sheet Exposures	50,761,798	50,089,072	23,377,415	23,377,415	1,870,193
<i>Off-Balance Sheet Exposures</i>					
OTC Derivatives	2,384,830	2,384,830	1,026,057	1,026,057	82,085
Off balance sheet exposures other than OTC derivatives or credit derivatives	7,114,087	6,857,258	6,084,916	6,084,916	486,793
Defaulted Exposures	79,360	79,360	118,962	118,962	9,517
Total for Off-Balance Sheet Exposures	9,578,277	9,321,448	7,229,935	7,229,935	578,395
Total On and Off-Balance Sheet Exposures	60,340,075	59,410,520	30,607,350	30,607,350	2,448,588
<u>Large Exposures Risk Requirement</u>					
	-	-	-	-	-
<u>Market Risk</u>					
	<u>Long Position</u>	<u>Short Position</u>			
Interest Rate Risk	51,401,202	48,322,106	3,079,096	1,230,931	98,475
Foreign Currency Risk	91,002	7,137	91,002	91,002	7,280
Option Risk	-	-	-	590,300	47,224
	51,492,204	48,329,243	3,170,098	1,912,233	152,979
Operational Risk	-	-	-	4,035,680	322,854
Total RWA and Capital Requirement	-	-	-	36,555,263	2,924,421

The table above discloses the gross and net exposures, risk weighted assets and capital requirements for credit risk, market risk, large exposures risk and operational risk of the Group as at balance sheet date. The following disclosure requirement came into effect in 2008 with the adoption of the Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF".

Note:

PSIA - Profit Sharing Investment Account

MDBs - Multilateral Development Banks

OTC - Over the counter

34 Capital Adequacy (Cont'd)

2008

Bank

Exposure Class	Gross Exposures (RM'000)	Net Exposures (RM'000)	Risk Weighted Assets (RWA) (RM'000)	Total RWA after PSIA (RM'000)	Capital Requirement (RM'000)
<i>Credit Risk</i>					
<i>On-Balance Sheet Exposures</i>					
Sovereigns/Central Banks	13,448,678	13,448,678	-	-	-
Banks, Development Financial Institutions & MDBs	3,643,235	3,643,235	933,851	933,851	74,708
Corporates	11,566,556	11,127,535	10,483,632	10,483,632	838,691
Regulatory Retail	5,292,293	5,071,893	3,784,170	3,784,170	302,734
Residential Mortgages	11,500,874	11,493,941	4,498,084	4,498,084	359,847
Higher Risk Assets	819	819	1,228	1,228	98
Other Assets	1,103,841	1,103,841	894,114	894,114	71,529
Equity Exposure	66,814	66,814	66,814	66,814	5,345
Defaulted Exposures	491,346	487,316	559,610	559,610	44,769
Total for On-Balance Sheet Exposures	47,114,456	46,444,072	21,221,503	21,221,503	1,697,721
<i>Off-Balance Sheet Exposures</i>					
OTC Derivatives	2,367,607	2,367,607	1,022,612	1,022,612	81,809
Off balance sheet exposures other than OTC derivatives or credit derivatives	6,627,839	6,371,479	5,611,214	5,611,214	448,897
Defaulted Exposures	79,357	79,357	118,959	118,959	9,517
Total for Off-Balance Sheet Exposures	9,074,803	8,818,443	6,752,785	6,752,785	540,223
Total On and Off-Balance Sheet Exposures	56,189,259	55,262,515	27,974,288	27,974,288	2,237,944
<i>Large Exposures Risk Requirement</i>					
<i>Market Risk</i>					
	Long Position	Short Position			
Interest Rate Risk	51,133,464	48,322,106	2,811,358	1,192,292	95,383
Foreign Currency Risk	89,170	7,137	89,170	89,170	7,134
Option Risk	-	-	-	590,300	47,224
	51,222,634	48,329,243	2,900,528	1,871,762	149,741
Operational Risk	-	-	-	3,994,726	319,578
Total RWA and Capital Requirement	-	-	-	33,840,776	2,707,263

The table above discloses the gross and net exposures, risk weighted assets and capital requirements for credit risk, market risk, large exposures risk and operational risk of the Bank as at balance sheet date. The following disclosure requirement came into effect in 2008 with the adoption of the Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF".

Note:

PSIA - Profit Sharing Investment Account

MDBs - Multilateral Development Banks

OTC - Over the counter

34 Capital Adequacy (Cont'd)

2009

Group

Risk Weights	Exposures after Netting and Credit Risk Mitigation								Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
	Sovereigns & Central Banks RM'000	Banks, MDBs and DFIs RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity RM'000		
0%	19,140,073	-	1,332	24,508	-	-	197,409	-	19,363,322	-
20%	-	6,136,633	1,163,245	25,373	-	-	-	-	7,325,251	1,465,050
35%	-	-	-	-	9,747,389	-	-	-	9,747,389	3,411,586
50%	-	726,941	589,549	109,511	2,551,386	-	-	-	3,977,387	1,988,694
75%	-	-	-	7,737,246	789,740	-	-	-	8,526,986	6,395,240
100%	-	619	12,598,728	77,353	137,534	-	611,466	35,971	13,461,671	13,461,671
150%	-	-	68,042	135,771	-	1,693	-	-	205,506	308,259
Total Risk Weight	-	-	-	-	-	-	-	-	62,607,512	27,030,500
Average Risk Weight	-	-	-	-	-	-	-	-	3,478,195	1,501,694
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-

2009

Bank

Risk Weights	Exposures after Netting and Credit Risk Mitigation								Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
	Sovereigns & Central Banks RM'000	Banks, MDBs and DFIs RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity RM'000		
0%	18,232,927	-	1,332	24,058	-	-	197,409	-	18,455,726	-
20%	-	6,464,935	1,069,018	25,373	-	-	-	-	7,559,326	1,511,864
35%	-	-	-	-	9,747,389	-	-	-	9,747,389	3,411,586
50%	-	1,269,085	587,257	109,190	2,551,385	-	-	-	4,516,917	2,258,459
75%	-	-	-	6,275,705	709,340	-	-	-	6,985,045	5,238,784
100%	-	619	10,724,312	74,666	136,301	-	901,228	35,971	11,873,097	11,873,097
150%	-	-	67,914	118,435	-	1,693	-	-	188,042	282,062
Total Risk Weight	-	-	-	-	-	-	-	-	59,325,542	24,575,852
Average Risk Weight	-	-	-	-	-	-	-	-	3,295,863	1,365,325
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-

The above are disclosures on credit risk by risk weights of the Group and the Bank as at balance sheet date. The following disclosure requirement came into effect in 2008 with the adoption of the Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF".

Note:

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

34 Capital Adequacy (Cont'd)

2008

Group

Risk Weights	Exposures after Netting and Credit Risk Mitigation								Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
	Sovereigns & Central Banks RM'000	Banks, MDBs and DFIs RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity RM'000		
0%	15,012,318	-	-	-	-	-	209,726	-	15,222,044	-
20%	-	3,968,494	1,224,300	12,333	-	-	-	-	5,205,127	1,041,025
35%	-	-	-	-	8,652,679	-	-	-	8,652,679	3,028,437
50%	-	575,878	406,136	117,534	2,645,200	-	-	-	3,744,748	1,872,374
75%	-	-	-	8,040,206	284,575	-	-	-	8,324,781	6,243,586
100%	-	29,326	17,002,833	39,864	163,033	-	637,698	66,814	17,939,568	17,939,568
150%	-	-	142,536	177,855	-	1,182	-	-	321,573	482,360
Total Risk Weight	-	-	-	-	-	-	-	-	59,410,520	30,607,350
Average Risk Weight	-	-	-	-	-	-	-	-	3,300,584	1,800,432
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-

2008

Bank

Risk Weights	Exposures after Netting and Credit Risk Mitigation								Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
	Sovereigns & Central Banks RM'000	Banks, MDBs and DFIs RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity RM'000		
0%	13,548,490	-	-	-	-	-	209,726	-	13,758,216	-
20%	-	3,982,774	1,070,524	12,333	-	-	-	-	5,065,631	1,013,126
35%	-	-	-	-	8,652,679	-	-	-	8,652,679	3,028,438
50%	-	1,247,150	406,136	117,249	2,645,200	-	-	-	4,415,735	2,207,868
75%	-	-	-	6,942,658	225,125	-	-	-	7,167,783	5,375,837
100%	-	29,326	14,717,584	39,851	161,682	-	894,114	66,814	15,909,371	15,909,371
150%	-	-	142,047	149,870	-	1,183	-	-	293,100	439,648
Total Risk Weight	-	-	-	-	-	-	-	-	55,262,515	27,974,288
Average Risk Weight	-	-	-	-	-	-	-	-	3,070,140	1,554,127
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-

The above are disclosures on credit risk by risk weights of the Group and the Bank as at balance sheet date. The following disclosure requirement came into effect in 2008 with the adoption of the Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF".

Note:

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

35 Commitments and Contingencies

2009

	Group			
	Credit Principal amount RM'000	Positive fair value of derivative contracts^ RM'000	Credit equivalent amount* RM'000	Risk weighted amount RM'000
Direct credit substitutes	1,446,422	-	1,446,422	1,235,995
Transaction-related contingent items	2,249,420	-	1,124,710	928,413
Short-term self-liquidating trade-related contingencies	465,362	-	93,073	78,134
Irrevocable commitments to extend credit:				
- Maturity not exceeding one year	9,895,365	-	-	-
- Maturity exceeding one year	789,001	-	394,501	359,391
Unutilised credit card lines	7,494,056	-	1,498,811	1,124,108
Foreign exchange related contracts				
- Less than one year	13,704,272	128,399	280,081	187,442
- One year to less than five years	7,755,321	203,458	813,501	395,224
- Five years and above	56,719	1,899	7,840	6,730
Interest/profit rate related contracts:				
- Less than one year	8,044,693	30,241	36,273	13,364
- One year to less than five years	20,202,471	244,668	729,983	265,587
- Five years and above	2,185,414	46,831	181,820	95,002
Other commodity contracts:				
- Less than one year	64,077	454	8,143	1,629
- One year to less than five years	36,658	1,974	6,373	1,274
Equity related contracts				
- Less than one year	80,720	2,804	7,647	1,528
- One year to less than five years	1,031,565	93,133	173,802	34,762
Sell buy back agreement	165,757	-	165,757	165,757
	75,667,293	753,861	6,968,737	4,894,340

Note 10

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

* The credit equivalent and risk weighted amount is computed using credit conversion factors and risk weighting rules as per Bank Negara Malaysia guidelines. The credit conversion factors and risk weighting rules were based on Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF" and the temporary (until 31 December 2010) measure related to credit conversion factor for undrawn facilities.

35 Commitments and Contingencies (Cont'd)

2009	Bank			
	Credit Principal amount RM'000	Positive fair value of derivative contracts^ RM'000	Credit equivalent amount* RM'000	Risk weighted amount RM'000
Direct credit substitutes	1,420,404	-	1,420,404	1,210,053
Transaction-related contingent items	2,237,095	-	1,118,548	922,348
Short-term self-liquidating trade-related contingencies	415,629	-	83,126	68,284
Irrevocable commitments to extend credit:				
- Maturity not exceeding one year	9,272,578	-	-	-
- Maturity exceeding one year	737,471	-	368,735	334,734
Unutilised credit card lines	6,987,115	-	1,397,423	1,048,067
Foreign exchange related contracts				
- Less than one year	13,704,272	128,399	280,081	187,442
- One year to less than five years	7,755,321	203,458	813,501	395,224
- Five years and above	56,719	1,899	7,840	6,730
Interest rate related contracts:				
- Less than one year	8,044,693	30,241	36,273	13,364
- One year to less than five years	20,202,471	244,668	729,983	265,587
- Five years and above	2,185,414	46,831	181,820	95,002
Other commodity contracts:				
- Less than one year	64,077	454	8,143	1,629
- One year to less than five years	36,658	1,974	6,373	1,274
Equity related contracts				
- Less than one year	-	-	-	-
- One year to less than five years	967,375	85,700	161,233	32,247
Sell buy back agreement	-	-	-	-
	74,087,292	743,624	6,613,483	4,581,985

Note 10

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

* The credit equivalent and risk weighted amount is computed using credit conversion factors and risk weighting rules as per Bank Negara Malaysia guidelines. The credit conversion factors and risk weighting rules were based on Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF" and the temporary (until 31 December 2010) measure related to credit conversion factor for undrawn facilities.

35 Commitments and Contingencies (Cont'd)

2008	Group			
	Credit Principal amount RM'000	Positive fair value of derivative contracts^ RM'000	Credit equivalent amount* RM'000	Risk weighted amount RM'000
Direct credit substitutes	1,443,220	-	1,443,220	1,346,032
Transaction-related contingent items	2,369,435	-	1,184,718	1,028,600
Short-term self-liquidating trade-related contingencies	224,658	-	44,932	39,006
Irrevocable commitments to extend credit:				
- Maturity not exceeding one year	11,681,783	-	2,336,357	2,022,457
- Maturity exceeding one year	993,072	-	496,536	447,443
Unutilised credit card lines	7,346,896	-	1,469,379	1,102,034
Foreign exchange related contracts				
- Less than one year	18,372,259	376,129	579,199	392,529
- One year to less than five years	3,579,340	128,125	232,661	86,302
- Five years and above	1,943,361	95,080	156,218	17,712
Interest/profit rate related contracts:				
- Less than one year	11,489,607	24,742	37,957	11,251
- One year to less than five years	18,680,994	310,112	706,558	285,029
- Five years and above	6,184,729	235,147	587,247	216,235
Other commodity contracts:				
- Less than one year	-	-	-	-
- One year to less than five years	72,409	10,041	18,731	3,747
Equity related contracts				
- Less than one year	451,857	13,632	35,632	7,126
- One year to less than five years	257,963	9,990	30,627	6,126
Sell buy back agreement	218,306	-	218,305	218,306
	<u>85,309,889</u>	<u>1,202,998</u>	<u>9,578,277</u>	<u>7,229,935</u>

Note 10

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

* The credit equivalent and risk weighted amount is computed using credit conversion factors and risk weighting rules as per Bank Negara Malaysia guidelines. The credit conversion factors and risk weighting rules were based on Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF".

35 Commitments and Contingencies (Cont'd)

2008	Bank			
	Credit Principal amount RM'000	Positive fair value of derivative contracts^ RM'000	Credit equivalent amount* RM'000	Risk weighted amount RM'000
Direct credit substitutes	1,441,426	-	1,441,426	1,344,281
Transaction-related contingent items	2,361,335	-	1,180,668	1,024,550
Short-term self-liquidating trade-related contingencies	211,749	-	42,350	36,473
Irrevocable commitments to extend credit:				
- Maturity not exceeding one year	10,511,626	-	2,102,325	1,794,509
- Maturity exceeding one year	992,561	-	496,281	447,250
Unutilised credit card lines	7,220,736	-	1,444,147	1,083,110
Foreign exchange related contracts				
- Less than one year	18,372,259	376,129	579,199	392,529
- One year to less than five years	3,579,340	128,125	232,661	86,302
- Five years and above	1,943,361	95,080	156,218	17,712
Interest rate related contracts:				
- Less than one year	11,489,607	24,742	37,957	11,251
- One year to less than five years	18,680,994	310,112	706,558	285,029
- Five years and above	6,184,729	235,147	587,247	216,235
Other commodity contracts:				
- Less than one year	-	-	-	-
- One year to less than five years	72,409	10,041	18,731	3,747
Equity related contracts				
- Less than one year	420,745	12,546	32,680	6,536
- One year to less than five years	151,037	4,273	16,355	3,271
Sell buy back agreement	-	-	-	-
	83,633,914	1,196,195	9,074,803	6,752,785

Note 10

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

* The credit equivalent and risk weighted amount is computed using credit conversion factors and risk weighting rules as per Bank Negara Malaysia guidelines. The credit conversion factors and risk weighting rules were based on Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF".

36 Interest/ Profit Rate Risk

The Group and the Bank are exposed to various risks associated with the effects of fluctuations in the prevailing level of market interest/profit rates on its financial position and cash flows. The following tables summarises 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 2009	Non-trading book					Non-interest/ profit sensitive RM'000	Trading book RM'000	Effective interest/ profit rate %	
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				Total RM'000
ASSETS									
Cash and short term funds	11,214,110	-	-	-	-	495,448	-	11,709,558	1.94
Securities purchased under resale agreements	3,769,817	3,011,106	-	-	-	-	-	6,780,923	2.01
Deposits and placements with banks and other financial institutions	-	108,018	34,794	-	-	-	-	142,812	2.13
Securities held-for-trading	-	-	-	-	-	-	1,282,817	1,282,817	2.83
Securities available-for-sale	833,878	1,117,380	759,895	1,964,474	147,536	32,729	-	4,855,892	2.76
Loans, advances and financing									
- performing	22,450,938	2,210,886	775,916	1,523,149	430,931	955,525	-	28,347,345	5.39
- non-performing *	-	-	-	-	-	276,447	-	276,447	
Others	-	-	-	-	-	735,661	1,005,839	1,741,500	
Total Assets	38,268,743	6,447,390	1,570,605	3,487,623	578,467	2,495,810	2,288,656	55,137,294	
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers	23,591,775	2,842,003	7,199,920	1,766,063	245,000	9,041,597	-	44,686,358	1.92
Deposits and placements of banks and other financial institutions	1,833,526	373,621	196,389	6,737	2,004	407,361	-	2,819,638	1.54
Bills and acceptances payable	2,100	8,817	-	-	-	300,699	-	311,616	1.61
Recourse obligation on loans sold to Cagamas Berhad	-	-	173,739	401,772	-	-	-	575,511	4.71
Subordinated bonds	-	-	-	-	1,000,385	-	-	1,000,385	4.70
Others	-	-	-	-	-	1,016,917	842,786	1,859,703	
Total Liabilities	25,427,401	3,224,441	7,570,048	2,174,572	1,247,389	10,766,574	842,786	51,253,211	
Shareholders' funds	-	-	-	-	-	3,884,083	-	3,884,083	
Total Liabilities and Shareholders' funds	25,427,401	3,224,441	7,570,048	2,174,572	1,247,389	14,650,657	842,786	55,137,294	
On-balance sheet interest/profit sensitivity gap	12,841,342	3,222,949	(5,999,443)	1,313,051	(668,922)	(12,154,847)	1,445,870	-	
Off-balance sheet interest/profit sensitivity gap									
Interest/profit rate contracts									
- futures	-	30,000	-	(30,000)	-	-	-	-	
- options	56,198	(340,000)	70,400	213,402	-	-	-	-	
- swaps	364,643	(596,137)	(119,124)	166,001	198,756	-	-	14,139	
Total interest/profit sensitivity gap	13,262,183	2,316,812	(6,048,167)	1,662,454	(470,166)	(12,154,847)	1,445,870	14,139	

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

36 Interest/ Profit Rate Risk (Cont'd)

Group 2008	Non-trading book					Non-interest/ profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest/ profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
ASSETS									
Cash and short term funds	7,876,244	-	-	-	-	552,310	-	8,428,554	3.13
Securities purchased under resale agreements	3,678,816	99,977	-	-	-	-	-	3,778,793	2.98
Deposits and placements with banks and other financial institutions	-	902,684	95,130	-	-	-	-	997,814	3.43
Securities held-for-trading	-	-	-	-	-	-	3,491,259	3,491,259	3.06
Securities available-for-sale	299,301	867,429	1,250,900	1,214,066	231,101	52,114	-	3,914,911	3.72
Loans, advances and financing									
- performing	23,419,293	2,463,992	867,313	1,487,470	557,231	715,267	-	29,510,566	6.39
- non-performing *	-	-	-	-	-	208,704	-	208,704	
Others	-	-	-	-	-	1,256,603	1,229,109	2,485,712	
Total Assets	35,273,654	4,334,082	2,213,343	2,701,536	788,332	2,784,998	4,720,368	52,816,313	
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers	20,624,290	3,638,901	7,824,006	1,212,822	180,000	7,473,453	-	40,953,472	2.80
Deposits and placements of banks and other financial institutions	2,120,477	487,761	303,414	6,423	2,413	610,984	-	3,531,472	2.43
Bills and acceptances payable	15,352	94,701	-	-	-	304,180	-	414,233	3.08
Recourse obligation on loans sold to Cagamas Berhad	-	-	74,210	627,160	-	-	-	701,370	4.71
Subordinated bonds	-	-	-	-	1,027,338	-	-	1,027,338	4.70
Others	-	-	-	-	-	1,185,034	1,425,845	2,610,879	
Total Liabilities	22,760,119	4,221,363	8,201,630	1,846,405	1,209,751	9,573,651	1,425,845	49,238,764	
Shareholders' funds	-	-	-	-	-	3,577,549	-	3,577,549	
Total Liabilities and Shareholders' funds	22,760,119	4,221,363	8,201,630	1,846,405	1,209,751	13,151,200	1,425,845	52,816,313	
On-balance sheet interest/profit sensitivity gap	12,513,535	112,719	(5,988,287)	855,131	(421,419)	(10,366,202)	3,294,523	-	
Off-balance sheet interest/profit sensitivity gap									
Interest/profit rate contracts									
- futures	-	296,450	(246,450)	(50,000)	-	-	-	-	
- options	119,200	(230,000)	(50,000)	160,800	-	-	-	-	
- swaps	(876,624)	40,972	55,955	(806,317)	1,506,536	-	-	(79,478)	
Total interest/profit sensitivity gap	11,756,111	220,141	(6,228,782)	159,614	1,085,117	(10,366,202)	3,294,523	(79,478)	

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

36 Interest/ Profit Rate Risk (Cont'd)

Bank 2009	Non-trading book					Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
ASSETS									
Cash and short term funds	10,589,230	6,851	400,000	-	-	484,402	-	11,480,483	1.93
Securities purchased under resale agreements	3,769,817	3,011,106	-	-	-	-	-	6,780,923	2.01
Deposits and placements with banks and other financial institutions	47,275	374,108	642,220	22,266	-	-	-	1,085,869	2.13
Securities held-for-trading	-	-	-	-	-	-	1,155,431	1,155,431	3.03
Securities available-for-sale	785,932	887,447	759,895	1,858,134	147,536	32,728	-	4,471,672	2.72
Loans, advances and financing									
- performing	21,482,356	1,868,359	518,225	163,620	267,677	902,205	-	25,202,442	5.03
- non-performing *	-	-	-	-	-	256,377	-	256,377	
Others	-	-	-	-	-	1,336,141	994,941	2,331,082	
Total Assets	36,674,610	6,147,871	2,320,340	2,044,020	415,213	3,011,853	2,150,372	52,764,279	
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers	22,138,114	2,568,085	6,781,698	1,764,444	245,000	8,716,627	-	42,213,968	1.93
Deposits and placements of banks and other financial institutions	1,833,526	264,005	196,389	6,737	2,004	407,361	-	2,710,022	1.31
Bills and acceptances payable	2,100	8,817	-	-	-	297,401	-	308,318	1.61
Recourse obligation on loans sold to Cagamas Berhad	-	-	173,739	401,772	-	-	-	575,511	4.71
Subordinated bonds	-	-	-	-	1,000,385	-	-	1,000,385	4.70
Others	-	-	-	-	-	1,320,087	832,549	2,152,636	
Total Liabilities	23,973,740	2,840,907	7,151,826	2,172,953	1,247,389	10,741,476	832,549	48,960,840	
Shareholders' funds	-	-	-	-	-	3,803,439	-	3,803,439	
Total Liabilities and Shareholders' funds	23,973,740	2,840,907	7,151,826	2,172,953	1,247,389	14,544,915	832,549	52,764,279	
On-balance sheet interest sensitivity gap	12,700,870	3,306,964	(4,831,486)	(128,933)	(832,176)	(11,533,062)	1,317,823	-	
Off-balance sheet interest sensitivity gap									
Interest rate contracts									
- futures	-	30,000	-	(30,000)	-	-	-	-	
- options	56,198	(340,000)	70,400	213,402	-	-	-	-	
- swaps	364,643	(596,137)	(119,124)	166,001	198,756	-	-	14,139	
Total interest sensitivity gap	13,121,711	2,400,827	(4,880,210)	220,470	(633,420)	(11,533,062)	1,317,823	14,139	

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

36 Interest/ Profit Rate Risk (Cont'd)

Bank 2008	Non-trading book					Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
ASSETS									
Cash and short term funds	6,930,255	-	-	-	-	515,200	-	7,445,455	3.11
Securities purchased under resale agreements	3,678,816	99,977	-	-	-	-	-	3,778,793	2.98
Deposits and placements with banks and other financial institutions	5,564	973,125	816,543	145,893	-	-	-	1,941,125	3.43
Securities held-for-trading	-	-	-	-	-	-	3,223,521	3,223,521	3.06
Securities available-for-sale	289,300	847,383	831,334	1,098,118	231,101	52,114	-	3,349,350	3.66
Loans, advances and financing									
- performing	23,079,409	1,905,752	441,082	151,424	307,483	705,722	-	26,590,872	6.23
- non-performing *	-	-	-	-	-	201,367	-	201,367	
Others	-	-	-	-	-	1,839,256	1,222,105	3,061,361	
Total Assets	33,983,344	3,826,237	2,088,959	1,395,435	538,584	3,313,659	4,445,626	49,591,844	
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers	18,790,700	3,006,761	7,358,060	1,189,538	180,000	7,184,093	-	37,709,152	2.79
Deposits and placements of banks and other financial institutions	2,223,526	487,761	303,414	6,423	2,413	507,935	-	3,531,472	2.43
Bills and acceptances payable	15,352	94,701	-	-	-	303,127	-	413,180	3.08
Recourse obligation on loans sold to Cagamas Berhad	-	-	74,210	627,160	-	-	-	701,370	4.71
Subordinated bonds	-	-	-	-	1,027,338	-	-	1,027,338	4.70
Others	-	-	-	-	-	1,236,553	1,419,042	2,655,595	
Total Liabilities	21,029,578	3,589,223	7,735,684	1,823,121	1,209,751	9,231,708	1,419,042	46,038,107	
Shareholders' funds	-	-	-	-	-	3,553,737	-	3,553,737	
Total Liabilities and Shareholders' funds	21,029,578	3,589,223	7,735,684	1,823,121	1,209,751	12,785,445	1,419,042	49,591,844	
On-balance sheet interest sensitivity gap	12,953,766	237,014	(5,646,725)	(427,686)	(671,167)	(9,471,786)	3,026,584	-	
Off-balance sheet interest sensitivity gap									
Interest rate contracts									
- futures	-	296,450	(246,450)	(50,000)	-	-	-	-	
- options	119,200	(230,000)	(50,000)	160,800	-	-	-	-	
- swaps	(876,624)	40,972	55,955	(806,317)	1,506,536	-	-	(79,478)	
Total interest sensitivity gap	12,196,342	344,436	(5,887,220)	(1,123,203)	835,369	(9,471,786)	3,026,584	(79,478)	

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

37 Collateral

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

	<i>Group</i>		<i>Bank</i>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Carrying amount of assets pledged as collateral				
- Collateral pledged for repurchase agreements	165,757	218,306	-	-
Fair value of assets accepted as collateral and collateral sold/ repledged				
- Collateral accepted for reverse repurchase agreement	6,780,923	3,778,793	6,780,923	3,778,793
- Collateral sold	98,544	274,781	98,544	274,781

38 Fair Values of Financial Assets and Liabilities

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

	<i>Group</i>			
	2009 Carrying amount RM'000	2009 Fair Value RM'000	2008 Carrying amount RM'000	2008 Fair Value RM'000
Financial Assets				
Cash and short term funds	11,709,558	11,709,558	8,428,554	8,428,554
Securities purchased under resale agreements	6,780,923	6,780,923	3,778,793	3,778,793
Deposits and placements with banks and other financial institutions	142,812	142,812	997,814	997,814
Securities held-for-trading	1,282,817	1,282,817	3,491,259	3,491,259
Securities available-for-sale	4,855,892	4,858,355	3,914,911	3,919,918
Loans, advances and financing	28,623,792	28,874,170	29,719,270	29,646,664
Financial Liabilities				
Deposits from customers	44,686,358	44,189,010	40,953,472	41,107,331
Deposits and placements of banks and other financial institutions	2,819,638	2,819,617	3,531,472	3,539,739
Bills and acceptances payable	311,616	311,616	414,233	414,233
Recourse obligation on loans sold to Cagamas Berhad	575,511	569,222	701,370	696,313
Subordinated bonds	1,000,385	1,044,533	1,027,338	1,027,338

38 Fair Values of Financial Assets and Liabilities (Cont'd)

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

	<i>Bank</i>			
	2009 Carrying amount RM'000	2009 Fair Value RM'000	2008 Carrying amount RM'000	2008 Fair Value RM'000
Financial Assets				
Cash and short term funds	11,480,483	11,480,483	7,445,455	7,445,455
Securities purchased under resale agreements	6,780,923	6,780,923	3,778,793	3,778,793
Deposits and placements with banks and other financial institutions	1,085,869	1,085,869	1,941,125	1,941,125
Securities held-for-trading	1,155,431	1,155,431	3,223,521	3,223,521
Securities available-for-sale	4,471,672	4,474,135	3,349,350	3,354,357
Loans, advances and financing	25,458,819	25,712,769	26,792,239	26,762,735
Financial Liabilities				
Deposits from customers	42,213,968	41,704,853	37,709,152	37,851,638
Deposits and placements of banks and other financial institutions	2,710,022	2,710,001	3,531,472	3,539,739
Bills and acceptances payable	308,318	308,318	413,180	413,180
Recourse obligation on loans sold to Cagamas Berhad	575,511	569,222	701,370	696,313
Subordinated bonds	1,000,385	1,044,533	1,027,338	1,027,338

38 Fair Values of Financial Assets and Liabilities (Cont'd)

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

Cash and short term funds

Securities purchased under resale agreements

Deposits and placements with banks and other financial institutions

Obligations on securities sold under repurchase agreements

Bills and acceptances payable

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

Securities

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

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

Loans, advances and financing

For personal and commercial loans and financing which mature or reprice after six months, fair value is principally estimated by discounting anticipated cash flows (including interest 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. For non-performing loans/financing, the fair value is the carrying value of the loans/financing, net of specific allowances. General allowances are deducted from the fair value of loans, advances and financing.

Deposits from customers

Deposits and placements of banks and other financial institutions

Recourse obligation on loans sold to Cagamas Berhad

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

Unrecognised financial instruments

The valuation of financial instruments not recognised in the balance sheet reflects their current market rates at the balance sheet date. The fair value of financial instruments not recognised in the balance sheet as at 31 December are disclosed in Note 10 and 19. The contractual amounts are disclosed in Note 35.

Subordinated bonds

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

39 Lease Commitments

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

Year	<i>Group</i>	<i>Bank</i>
	RM'000	RM'000
Less than one year	17,725	17,693
Between one and five years	12,234	12,212
More than five years	220	220
	30,179	30,125

40 Capital Commitments

	<i>Group</i>		<i>Bank</i>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Capital expenditure:				
- Authorised and contracted for	5,869	5,219	1,834	4,039
- Authorised but not contracted for	4,166	6,113	2,158	4,683
	10,035	11,332	3,992	8,722

41 Equity-based Compensation

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

a. Executive Share Option Scheme/Group Share Option Plan

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

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

Group

Year	2009 Number (‘000)	Weighted average exercise price £	2008 Number (‘000)	Weighted average exercise price £
Outstanding at 1 January	1,643	7.88	1,711	7.68
Exercised in the year	-	-	-	-
Lapsed in the year	(31)	7.12	(68)	7.94
Outstanding at 31 December	<u>1,612</u>		<u>1,643</u>	7.88
Options vested at 31 December	<u>-</u>		<u>-</u>	
	2009 RM’000		2008 RM’000	
Compensation cost written back during the year	<u>(244)</u>		<u>(465)</u>	

Bank

Year	2009 Number (‘000)	Weighted average exercise price £	2008 Number (‘000)	Weighted average exercise price £
Outstanding at 1 January	1,643	7.88	1,711	7.68
Exercised in the year	-	-	-	-
Lapsed in the year	(31)	7.12	(68)	7.94
Outstanding at 31 December	<u>1,612</u>	6.91	<u>1,643</u>	7.88
Options vested at 31 December	<u>-</u>		<u>-</u>	
	2009 RM’000		2008 RM’000	
Compensation cost written back during the year	<u>(244)</u>		<u>(465)</u>	

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

41 Equity-based Compensation (Cont'd)

b. Savings-Related Share Option Schemes

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

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

Group

Year	2009	Weighted	2008	Weighted
	Number	average	Number	average
	('000)	exercise	('000)	exercise
		price		price
		£		£
Outstanding at 1 January	1,707	6.87	1,932	7.07
Granted in the year	530	3.31	945	6.82
Exercised in the year	(171)	7.24	(755)	6.44
Lapsed in the year	(1,558)	6.55	(414)	7.06
Other Transfers	(57)	3.38	(1)	6.91
Outstanding at 31 December	<u>451</u>	<u>5.04</u>	<u>1,707</u>	<u>6.87</u>
Options vested at 31 December	<u>168</u>		<u>752</u>	
	2009		2008	
	RM'000		RM'000	
Compensation cost recognised during the year	<u>14,446</u>		<u>7,408</u>	

Bank

Year	2009	Weighted	2008	Weighted
	Number	average	Number	average
	('000)	exercise	('000)	exercise
		price		price
		£		£
Outstanding at 1 January	1,694	6.87	1,932	7.07
Granted in the year	489	3.31	945	6.82
Exercised in the year	(170)	7.24	(755)	6.44
Lapsed in the year	(1,549)	6.55	(414)	7.06
Transfer to HSBC Amanah	-	-	(13)	7.12
Other transfers	(57)	3.38	(1)	6.91
Outstanding at 31 December	<u>407</u>	<u>5.12</u>	<u>1,694</u>	<u>6.87</u>
Options vested at 31 December	<u>168</u>		<u>752</u>	
	2009		2008	
	RM'000		RM'000	
Compensation cost recognised during the year	<u>14,331</u>		<u>7,379</u>	

41 Equity-based Compensation (Cont'd)

c. Restricted Share Plan

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

Year	<i>Group</i>		<i>Bank</i>	
	2009 Number ('000)	2008 Number ('000)	2009 Number ('000)	2008 Number ('000)
Outstanding at 1 January	126	89	126	89
Additions during the year	5	41	5	41
Released in the year	(42)	(4)	(42)	(4)
Outstanding at 31 December	89	126	89	126
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Compensation cost recognised during the year	2,654	1,399	2,654	1,399

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan is £7.28 (2008: £7.48). The closing price of the HSBC share at 31 December 2009 was £7.09 (2008: £6.62). The weighted average remaining vesting period as at 31 December 2009 was 1.94 years (2008: 2.49 years).

d. Achievement Share Award

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

Year	<i>Group</i>		<i>Bank</i>	
	2009 Number ('000)	2008 Number ('000)	2009 Number ('000)	2008 Number ('000)
Outstanding at 1 January	348	325	348	325
Additions during the year	-	147	-	147
Released in the year	(83)	(78)	(83)	(78)
Lapsed in the year	(6)	(46)	(6)	(46)
Outstanding at 31 December	259	348	259	348
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Compensation cost recognised during the year	5,235	6,780	5,235	6,780

The weighted average purchase price for all shares purchased by HSBC for awards under the Achievement Shares Award is £8.61 (2008: £8.89). The closing price of the HSBC share at 31 December 2009 was £7.09 (2008: £6.62). The weighted average remaining vesting period as at 31 December 2009 was 1.47 years (2008: 2.09 years).

42 Comparative Figures

a. Restatement of Comparative Figures

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

- (i) Reclassification/restatement to conform to the current year's presentation

	<i>Group</i>		<i>Bank</i>	
	As restated	As previously stated	As restated	As previously stated
	RM'000	RM'000	RM'000	RM'000
<u><i>Balance Sheet as at 31 Dec 2008</i></u>				
Other assets				
Interest/ income receivable	-	-	50,486	49,698
Other receivables, deposits and prepayments	-	-	177,647	178,435
Loans, advances and financing				
By interest/profit rate sensitivity				
Fixed Rate				
-Hire purchase receivables	252,199	252,461	-	-
-Other fixed rate loans/financing	4,818,735	4,818,473	-	-
<u><i>Credit exposure to connected parties as at 31 Dec 2008</i></u>				
Aggregate value of outstanding credit exposures to connected parties	-	-	263,340	5,182,637
As a percentage of total credit exposures	-	-	0.7%	5.0%