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

# FINANCIAL STATEMENTS – 31 DECEMBER 2010

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

**HSBC BANK MALAYSIA BERHAD**
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**AND ITS SUBSIDIARY COMPANIES**
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## BOARD OF DIRECTORS

Peter Wong Tung Shun, Chairman, Non-Independent Non-Executive Director
*(appointed on 5 February 2010)*

Alexander Andrew Flockhart, Chairman, Non-Independent Non-Executive Director
*(resigned on 5 February 2010)*

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

Jonathan William Addis, Deputy Chief Executive Officer, Non-Independent Executive Director

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
*(retired at the AGM on 5 March 2010)*

Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem, Independent Non-Executive Director

Dato' Zuraidah binti Atan, Independent Non-Executive Director
*(retired at the AGM on 5 March 2010)*

Ching Yew Chye, Independent Non-Executive Director

## PROFILE OF DIRECTORS

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

Age 59. Appointed on 5 February 2010. Mr Wong graduated from Indiana University, USA with a Bachelor of Arts in Computer Science, a Master of Business Administration in Marketing and Finance and a Master of Science in Computer Science. He started his banking career in 1980 with Citibank N.A. based in Hong Kong and thereafter Standard Charted Bank (Hong Kong) Limited in 1997. In 2005, he joined the HSBC Group as Group General Manager and Executive Director, Hong Kong and Mainland China of the HongKong and Shanghai Banking Corporation Limited.

Mr Wong is currently the Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited. He is also a Group Managing Director and a member of the Group Management Board. In addition, he is the Deputy Chairman and Non-executive Director of HSBC Bank (China) Company Limited, Vice Chairman of HSBC Bank (Vietnam) Limited and a Non-Executive Director of HSBC Bank Australia Limited, Hang Seng Bank Limited, Ping An Insurance (Group) Company of China Limited, Bank of Communications Co Limited, Hong Kong General Chamber of Commerce, Hong Kong Institute for Monetary Research, Cathay Pacific Airways Limited, Energy World Limited and Poly Concept Limited.

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

Age 50. Appointed on 15 December 2009. Mr Hussain graduated from University of Wales with a Bachelor of Science in Economics. He first joined the HSBC Group in 1982 as a Graduate Trainee in Midland Bank International. He was appointed as Assistant Director in Samuel Montagu in 1991. After close to 11 years of working in the Group's London offices, Mr Hussain then held numerous posts in Dubai including Chief Executive Officer of HSBC Financial Services (Middle East) Limited from 1995 to 2003 and established the initiative to create the first foreign investment bank in Saudi Arabia for HSBC. In 2003, he assumed the position of Chief Executive Officer of Global Banking and Market and became the Co-Head of Global Banking in 2005. He headed back to London as the Global Head of Principal Investments from 2006 to 2008. He was the Deputy Chairman, HSBC Bank Middle East Limited, Global Chief Executive Officer of HSBC Amanah and Chief Executive Officer of Global Banking and Markets, Middle East and North Africa, a dual role with global responsibilities for Islamic Finance and HSBC's wholesale banking activities in the Middle East and North Africa before he came to Malaysia.

In addition to his current role as Deputy Chairman and Chief Executive Officer, Mr Hussain is also a non-Executive Director of HSBC Bank Middle East Limited. He will also continue in his role as Global Chief Executive Officer of HSBC Amanah.

**Jonathan William Addis**, Deputy Chief Executive Officer, Non-Independent Executive Director

Age 51. Appointed on 22 October 2008. Mr Addis graduated from Cambridge University with a Bachelor of Arts in History. He joined the HSBC Group as an International Officer Management Trainee in 1981. Since then, he has held various positions covering business areas such as operations, credit, commercial banking and trade services within the HSBC Group in the Middle East, Europe, North America and Asia. In 1998, he was appointed as the 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.

Mr Addis is currently a Chairman of HSBC Malaysia Trustee Berhad and The British Malaysian Chamber of Commerce. He is also a Director of HSBC Kuala Lumpur Nominees Sdn Bhd, HSBC Nominees (Asing) Sdn Bhd, HSBC Nominees (Asing) Sdn Bhd, HSBC Nominees (Tempatan) Sdn Bhd, HSBC Electronic Data Processing (M) Sdn Bhd, HSBC Software Development (M) Sdn Bhd and The European Union-Malaysia Chamber of Commerce and Industry.

**Tan Sri Dato' Sulaiman bin Sujak**, Independent Non-Executive Director

Age 76. Appointed on 10 January 1994. Tan Sri Dato' Sulaiman graduated from the Royal Air Force College, Cranwell, England in 1958 and the Royal College of Defence Studies, London in 1973. He was the first Malaysian to be appointed as the Royal Malaysian Air Force Chief in 1967. In 1977, he served as an Adviser of Bank Negara Malaysia until 1983. He was then appointed as Commercial Director of Kumpulan Guthrie (1983-1989) and Deputy Chairman of Malaysia Airlines System (1977-2001). He joined HSBC Bank Malaysia Berhad in 1989 and 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.

Currently, Tan Sri Dato' Sulaiman 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 66. Appointed on 10 January 1994. Dato' Barlow graduated from Eton College and obtained a Bachelor of Arts and a Master of Arts from Cambridge University, United Kingdom. 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. He is also former Council Member of the Incorporated Society of Planters and Honorary Secretary of the Heritage Trust of Malaysia.

Dato' Barlow is a Director of Sime Darby Berhad and The International and Commonwealth University of Malaysia Berhad. He is also a Fellow of The Institute of Chartered Accountants, England and Wales, and a keen environmentalist.

**Datuk Ramli bin Ibrahim,** Independent Non-Executive Director

Age 70. Appointed on 01 January 1996. Datuk Ramli is a Chartered Accountant from the Institute of Chartered Accountants of Australia. He began his career with Peat Marwick Mitchell & Co. In 1989, he was appointed as Managing Partner of KPMG Peat Marwick Malaysia (now known as KPMG Malaysia) until 1995. He then served as Executive Chairman of Kuala Lumpur Options and Financial Futures Exchange Berhad until 2000.

Datuk Ramli is currently a Non-Executive Director of several other public listed and unlisted companies including MEASAT Global Berhad, Ranhill Berhad, BCT Technology Berhad, AEON Company (M) Berhad and AEON Credit Service (M) Berhad. He is also the Deputy Chairman of The Kuala Lumpur Rotary Charity Foundation.

**Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem**, Independent Non-Executive Director

Age 70. Appointed on 01 February 2000. Professor Emeritus Datuk Dr Mohamed Ariff obtained his BA First Class Honours and MEc from University of Malaya. He completed his PhD program at the University of Lancaster, England in 1971, on a Commonwealth Scholarship. His career started in 1973 at University of Malaya where he had served in various positions including as Dean of the Faculty of Economics and Administration and Chair of Analytical Economics until 1997. He was then appointed as the Executive Director of Malaysian Institute of Economic Research and retired on 31 December 2009.

Professor Datuk Mohamed Ariff was formerly a Board Member of the Inland Revenue Board and National Productivity Centre. He had a brief stint in the private sector as the Chief Economist at the United Asian Bank in 1976.

**Ching Yew Chye,** Independent Non-Executive Director

Age 57. Appointed on 22 October 2008. Mr Ching graduated from University of London in Computer Science and began his career with Robert Horne Group of Companies in Northampton, England in 1977 as an IT and Management Trainee. In 1982, he joined Accenture in London before returning to Accenture in Malaysia in 1983. He retired from Accenture as Senior Partner in 2007. During his tenure with Accenture, Mr Ching held various management roles including Managing Partner for the South Asia region (2002-2005) and was responsible for all aspects of Accenture's internal business operations, developing strategic capabilities and ensuring operational effectiveness and efficiency. From 1997 to 2002, he served on the Financial Services Global Management Committee and the Global Executive Council, which were responsible for directing the global strategy and business of financial services industry group. In 1997, he was also appointed Managing Partner for Financial Services Industry Group in Asia.

Mr Ching is currently a Director of Avenue Invest Berhad, Petronas Chemical Group Berhad and China Yuchai International Limited.

## BOARD RESPONSIBILITY AND OVERSIGHT

### BOARD OF DIRECTORS

#### Composition of the Board

At the date of this report, the Board consists of eight (8) members; comprising two (2) non-independent executive Directors, one (1) non-independent non-executive Director and five (5) independent non-executive Directors.

The concept of independence adopted by the Board is as defined in paragraph 2.26 of Bank Negara Malaysia's Guidelines on Corporate Governance for Licensed Institutions (Revised BNM/GP1). 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 Peter Wong Tung Shun 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.

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.

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

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

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. All non-executive Directors have complied with the requirements except for the Chairman due to unexpected and unavoidable circumstances.

The attendance of Directors at the Board meetings held in the financial year ended 31 December 2010 was as follows:

| Name of members | Independent/ Non-Independent | Attendance and number of meetings |
|---|---|---|
| Alexander Andrew Flockhart *[resigned on 5 February 2010]* | Non-Independent Non-Executive Chairman | 1 / 6 |
| Peter Wong Tung Shun *[appointed on 5 February 2010]* | Chairman, Non-Independent Non-Executive | 3 / 6 |
| Mukhtar Malik Hussain | Deputy Chairman and Chief Executive Officer | 6 / 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 | 6 / 6 |
| Datuk Ramli bin Ibrahim | Independent Non-Executive Director | 5 / 6 |
| Datuk Dr Zainal Aznam bin Mohd Yusof *[retired at the AGM on 5 March 2010]* | Independent Non-Executive Director | 0 / 6 |
| Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem | Independent Non-Executive Director | 5 / 6 |
| Dato' Zuraidah binti Atan *[retired at the AGM on 5 March 2010]* | Independent Non-Executive Director | 0 / 6 |
| Ching Yew Chye | Independent Non-Executive Director | 6 / 6 |

## 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.

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

**Management Committees**
- Executive Committee
- Credit Committee
- Asset and Liability Management Committee
- Risk 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 and Internal Control Committee
- Property Committee
- Basel II Steering Committee
- Stress Test Steering Committee

## 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

### 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 2010 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 *(retired at the AGM on 5 March 2010)* | Independent Non-Executive Director | 1 / 4 |

### Terms of Reference

The revised Terms of Reference were approved at the meeting of the Audit Committee on 28 October 2010 and the Board on 08 December 2010.

<u>Membership</u>

The Committee shall comprise not less than three members. All members shall be non-executive directors of which the majority should be independent non-executive directors.

The appointment to the Committee of members and of the Chairman shall be subject to endorsement by The Hongkong and Shanghai Banking Corporation Limited Audit Committee and/or HSBC Holdings plc Group Audit Committee.

The Board may from time to time appoint to the Committee additional members 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 the HSBC Group.

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.

**AUDIT COMMITTEE (Cont'd)**

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

Membership (Cont'd)

The Committee shall be supported by and may invite the following to attend all or part of each meeting: the chief financial officer, chief risk officer (and such executives from risk as he or she shall consider appropriate), head of operational risk assurance and audit; and head of compliance and company secretary. The Company Secretary of the Company shall be the Secretary of the Committee. The Secretary of the Committee shall produce such papers and minutes of the Committee's meetings as are appropriate and distribute them to all members of the Committee.

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 non-executive directors, including one independent non-executive director.

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

Objective

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

Responsibilities of the Committee

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

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

   (i) any changes in accounting policies and practices;
   (ii) major judgemental areas;
   (iii) significant adjustments resulting from audit;
   (iv) the going concern assumptions and any qualifications;
   (v) compliance with accounting standards;
   (vi) compliance with legal requirements in relation to financial reporting;
   (vii) regulatory guidance on disclosure of areas of special interest;
   (viii) comment letters from appropriate regulatory authorities; and
   (ix) matters drawn to the attention of the Committee by the Company's external auditor.

**AUDIT COMMITTEE (Cont'd)**

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

Responsibilities of the Committee (Cont'd)

In regard to the above:

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

2. To review the Company's financial and accounting policies and practices.

3. To review the Company's internal financial controls and its internal control and risk management systems.

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

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 in respect of the accounting records, financial accounts and related systems of control and management's response, and the external auditors' annual report on the progress of the audit.

9. To ensure a timely response is provided to the financial reporting and related control issues raised in the external auditor's management letter.

**AUDIT COMMITTEE (Cont'd)**

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

Responsibilities of the 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 Company and changes thereto), all alternative accounting treatments that have been discussed with management together with the potential ramifications of using those alternatives, the nature of any significant adjustments, the going concern assumption, compliance with accounting standards and stock exchange and legal requirements, reclassifications or additional disclosures proposed by the external auditor which are significant or which may in the future become material, the nature and impact of any material changes in accounting policies and practices, any written communications provided by the external auditor to management and any other matters the external auditor may wish to discuss (in the absence of management where necessary).

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

12. To receive an annual report, and other reports from time to time as may be required by applicable laws and regulations, from the chief executive officer and chief financial officer to the effect that such persons have disclosed to the Committee and to the external auditor all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which could adversely affect the Company's ability to record and report financial data and any fraud, whether material or not, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting.

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

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

15. 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.

16. To agree the Company's policy for the employment of former employees of the external auditor, within the terms of the HSBC Group's policy.

17. To monitor and review the effectiveness of the internal audit function; consider the major findings of internal investigations and management's response and the internal audit plan; and to seek such assurance as it may deem appropriate that the internal audit function is adequately resourced, has appropriate standing within the HSBC Group and is free from constraint by management or other restrictions. The Committee shall approve the appointment, remuneration, performance appraisal, transfer and dismissal of the head of operational risk assurance and audit.

**AUDIT COMMITTEE (Cont'd)**

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

Responsibilities of the Committee (Cont'd)

18. To consider any major findings of internal audits and any investigations into internal control matters as delegated by the Board or on the Committee's initiative and assess management's response.

19. To review the external auditor's management letter and any material queries raised by the external auditor on the management of risk or internal control; management's annual internal control report; and monitor management's timely and adequate response to the risk related issues raised.

20. To consider any major findings from regulatory reviews and interactions and assess the effectiveness of the management framework in relation to maintaining strong and professional relationships with the HSBC Group's major regulators.

21. To review management's statement on internal control systems prior to endorsement by the Board, the effectiveness of the Company's internal control systems and procedures for compliance with the HSBC Group's compliance policy and whether management has discharged its duty to have an effective internal control system.

22. To review the minutes of board risk management and/or executive risk management meetings and such further information as board risk management and/or executive risk management meeting may request from time to time.

23. Where applicable to review the composition, powers, duties and responsibilities of subsidiaries' Audit Committees.

24. To undertake or consider on behalf of the Chairman or the Board such other related tasks or topics as the Chairman or the Board may from to time entrust to it.

25. The Committee shall meet alone 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.

26. The Committee may appoint, employ or retain such professional advisors as the Committee may consider appropriate. The Committee is authorised by the Board to obtain such professional external advice as it shall deem appropriate as a means of taking full account of relevant risk experience elsewhere and challenging its analysis and assessment. Any such appointment shall be made through the Secretary to the Committee, who shall be responsible for the contractual arrangements and payment of fees by the Company on behalf of the Committee.

27. 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 arising therefrom.

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

29. 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.

30. To review any related party transactions that may arise within the Company and the HSBC Group.

**AUDIT COMMITTEE (Cont'd)**

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

Responsibilities of the Committee (Cont'd)

31. 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 as appropriate.

## 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
Ching Yew Chye

### 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 2010 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 *[retired at the AGM on 5 March 2010]* | Independent Non-Executive Director | 1/ 4 |
| Ching Yew Chye *[appointed on 29 March 2010]* | Independent Non-Executive Director | 3 / 4 |

### Terms of Reference

The revised Terms of Reference were approved at the meetings of the Risk Management Committee on 28 October 2010 and the Board held on 8 December 2010.

<u>Membership</u>

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

The appointment to the Committee of members and of the Chairman shall be subject to endorsement by The Hongkong and Shanghai Banking Corporation Limited Audit Committee and/or HSBC Holdings plc Group Risk Committee.

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 and may invite the following to attend all or part of each meeting: the chief financial officer, chief risk officer (and such executives from risk as he or she shall consider appropriate); head of operational risk assurance and audit; and the head of compliance and company secretary. The Company Secretary of the Company shall be the Secretary of the Committee. The Secretary of the Committee shall produce such papers and minutes of the Committee's meetings as are appropriate and distribute them to all members of the Committee.

## RISK MANAGEMENT COMMITTEE (Cont'd)

### Terms of Reference (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.

The Committee shall be accountable to the Board and shall have responsibility for oversight and advice to the Board on:

(i) the Board's risk appetite, tolerance and strategy;
(ii) systems of risk management, internal control and compliance to identify, measure, aggregate, control and report risks;
(iii) the alignment of strategy with the Board's risk appetite;
(iv) the alignment of reward structures, in relation to the management of risk, with the Board's risk appetite; and
(v) the maintenance and development of a supportive culture, in relation to the management of risk, appropriately embedded through procedures, training and leadership actions so that all employees are alert to the wider impact on the whole organisation of their actions and decisions.

Responsibilities of the Committee

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

   1.1 To advise the Board on all high level risk matters.

   In preparing advice to the Board on overall risk appetite tolerance and strategy, the Committee shall seek such assurance as it may deem appropriate that account has been taken of the current and prospective macroeconomic and financial environment, drawing on financial stability assessments published by authoritative sources that may be relevant.

**RISK MANAGEMENT COMMITTEE (Cont'd)**

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

Responsibilities of the Committee (Cont'd)

1.2 To consider the risks associated with proposed strategic acquisitions or disposals as requested from time to time by any Director in consultation with the Chairman of the Committee.

In regard to the above:

(i) the Committee, in advising the Board, should ensure that a due diligence appraisal of the proposition is undertaken, focusing in particular on risk aspects and implications for the risk appetite and tolerance of the HSBC Group, drawing on independent external advice where appropriate and available, before the Board takes a decision whether to proceed; and

(ii) the Committee should determine, on the basis of the business case presented and the HSBC Group's due diligence appraisal, whether management has sufficient backing to support a recommendation to the Board that the proposition would be likely to benefit the Company and its shareholders if it can be completed within an agreed framework.

1.3 To require regular risk management reports from management which:

(i) enable the Committee to assess the risks involved in the HSBC Group's business and how they are controlled and monitored by management; and

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

Such reports shall be sufficiently accurate and timely to enable the Committee to monitor particularly large exposures, product lines or risk types the relevance of which may become of critical importance.

Assessment of the risk management process should involve some quantitative metrics to serve as a way of tracking risk management performance in the implementation of the agreed strategy. Such metrics may include: preferred risk asset ratios; value at risk; target credit agency ratings; a system of risk or exposure limits; concentrations in risk positions; leverage ratios; economic capital measures and acceptable stress losses; and the results of stress and scenario analysis.

1.4 To review the effectiveness of the HSBC Group's internal control and risk management framework in relation to the core strategic objectives of the HSBC Group.

1.5 To monitor and review the effectiveness of the risk management function and to seek such assurance as it may deem appropriate that the risk management function is adequately resourced, 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 chief risk officer.

1.6 To consider any major findings from regulatory reviews and interactions and assess the effectiveness of the management framework in relation to maintaining strong and professional relationships with the HSBC Group's major regulators.

1.7 To review the minutes of executive risk management meetings and such further information as an executive risk management meeting may request from time to time.

**RISK MANAGEMENT COMMITTEE (Cont'd)**

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

Responsibilities of the Committee (Cont'd)

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

1.9 The Committee shall seek such assurance as it may deem appropriate that the chief risk officer:

(i) participates in the risk management and oversight process at the highest level on an enterprise-wide basis;

(ii) has a status of total independence from individual business units;

(iii) reports to the Committee alongside an internal functional reporting line to the Group Chief Risk Officer;

(iv) has direct access to the chairman of the Committee in the event of need.

1.10 Where applicable, to review the composition, powers, duties and responsibilities of subsidiaries' risk management committees.

1.11 To undertake or consider on behalf of the Chairman or the Board such other related tasks or topics as the Chairman or the Board may from to time entrust to it.

1.12 The Committee may appoint, employ or retain such professional advisors as the Committee may consider appropriate. The Committee is authorised by the Board to obtain such professional external advice as it shall deem appropriate as a means of taking full account of relevant risk experience elsewhere and challenging its analysis and assessment. Any such appointment shall be made through the Secretary to the Committee, who shall be responsible for the contractual arrangements and payment of fees by the Company on behalf of the Committee.

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

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

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

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

**RISK MANAGEMENT COMMITTEE (Cont'd)**

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

Responsibilities of the 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.

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.

## NOMINATING COMMITTEE

### Membership

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

Tan Sri Dato' Sulaiman bin Sujak (Chairman)
Mukhtar Malik Hussain
Datuk Ramli bin Ibrahim
Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem
Ching Yew Chye

### Meetings

Three meetings were held during the financial year. The attendance of the Directors at the Nominating Committee meetings held in 2010 was as follows:

| Name of members | Independent/ Non-Independent | Attendance and number of meetings |
|---|---|---|
| Tan Sri Dato' Sulaiman bin Sujak *[appointed as Chairman of the Committee on 29 March 2010]* | Chairman, Independent Non-Executive Director | 3 / 3 |
| Mukhtar Malik Hussain | Deputy Chairman and Chief Executive Officer Non-Independent Executive Director | 2 / 3 |
| Datuk Ramli bin Ibrahim *[appointed to the Committee on 29 March 2010]* | Independent Non-Executive Director | 2 / 3 |
| Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem | Independent Non-Executive Director | 3 / 3 |
| Ching Yew Chye *[appointed to the Committee on 29 March 2010]* | Independent Non-Executive Director | 2 / 3 |

### Terms of Reference

The revised Terms of Reference were approved at the meetings of the Nominating Committee on 28 October 2010 and the Board held on 8 December 2010.

Membership

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

**NOMINATING COMMITTEE (Cont'd)**

**Terms of Reference (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 assess and recommend the nominees for directorship, board committee members as well as nominees for the Chief Executive Officer (CEO). This includes assessing and recommending directors for reappointment, before an application is submitted to Bank Negara Malaysia for approval;

    1.3 To recommend to the Board the removal of any director/CEO from the board/ management if he or she is ineffective, errant and negligent in discharging his/her responsibilities;

    1.4 To ensure that there are established a performance evaluation processes for the effectiveness of the Board, the contribution of the Board's various committees, the performance of the CEO and other key Senior Management Officers of the Bank that are conducted based on objective performance criteria;

    1.5 To ensure that there are established procedures to oversee appointment and succession planning for key Senior Management Officers;

    1.6 To make recommendations to the Board concerning the re-election by shareholders of directors retiring by rotation;

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

    1.8 To assess on an annual basis, to ensure that the directors and key Senior Management Officers are not disqualified under section 56 of the Banking and Financial Institutions Act 1989.

**NOMINATING COMMITTEE (Cont'd)**

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

Responsibilities of the 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.

## CONNECTED PARTY TRANSACTIONS COMMITTEE

### Membership

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

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 four (4) members, of which two (2) shall be non-executive directors. The other two (2) members are as follows:

- Chief Risk 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.

## CONNECTED PARTY TRANSACTIONS COMMITTEE (Cont'd)

### Terms of Reference (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

## 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:

- Minutes of the Audit Committee meetings held
- Minutes of the Risk Management Committee meetings held
- Minutes of Nominating Committee meetings held
- Minutes of the monthly Executive Committee meetings held
- Minutes of the monthly Asset and Liability Management Committee meetings held
- 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 comparative analysis of competitor banks and competitor performance report
- Half yearly Bank Negara Malaysia’s benchmarking statistics
- Half yearly update on Sarbanes-Oxley projects
- Quarterly risk management reports on assets quality
- Quarterly credit advances reports
- Quarterly update on Basel II
- Quarterly update on Sustainability
- Scenario Stress Testing Results
- Reverse Stress Testing Results
- Human Resource update

## 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 and Internal Control 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.

## RATING BY EXTERNAL RATING AGENCIES

Details of the Bank's ratings are as follows:

| **Rating Agency** | **Date** | **Rating Classification** | **Ratings Received*** |
|---|---|---|---|
| Moody's Investors Service | July 2010 | - Financial strength rating | C- |
| | | - Foreign currency long term deposits | A3 |
| | | - Foreign currency short term debts | P-1 |
| | | - Outlook | Stable |
| RAM Holdings Berhad | June 2010 | - Long term | AAA |
| | | - Short term | P1 |
| | | - Subordinated bonds | AA1 |
| | | - Outlook | Stable |

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

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

The directors have pleasure in submitting their report and the audited financial statements of HSBC Bank Malaysia Berhad ("the Bank") and its subsidiaries ("the Group") for the year ended 31 December 2010.

### 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 14 to the financial statements.

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

### Results

| | *Group* | *Bank* |
|---|---|---|
| **Profit for the year attributable to the shareholder of the Bank** | **RM'000** | **RM'000** |
| Profit before income tax expense and zakat | **1,047,132** | **983,854** |
| Income tax expense and zakat | **(281,778)** | **(262,913)** |
| Profit after income expense and zakat | **765,354** | **720,941** |

### Dividends

Since the end of the previous financial year, the Bank paid a final dividend of RM1.456 per ordinary share less tax at 25% amounting to RM250 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 2010.

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 financial year under review except as disclosed in the financial statements.

### Other statutory information

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

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

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

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

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

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

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

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

In the opinion of the directors, except for those matters disclosed in the financial statements, the financial performance of the Group and of the Bank for the financial year ended 31 December 2010 has not been substantially affected by any item, transaction, or event of a material and unusual nature, nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

**Business Strategy during the Year**

2010 has been a year of progressive recovery for the financial services industry. The Group delivered a strong performance, with profit before tax exceeding the RM1 billion mark and is now well on track to resuming pre-crisis level profitability and long term organic growth in all business segments. The Group continued to remain strong in liquidity, capital strength, cost discipline, relationship-banking and global distribution capabilities.

Rating Agency Malaysia 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 and won various awards in 2010, which included:

1. Best Deal – *The Asset Triple A Country Awards*
   *(*HSBC was joint bookrunner and joint lead manager in the US$1.25 billion Government of Malaysia Sukuk)
2. Best Debt House – *The Asset Triple A Country Awards*
3. Best Bank – *The Asset Triple A Country Awards*
4. Best Sub-Custodian in Malaysia – *The Asset Triple A Asian Awards*
5. Best Domestic Custodian in Malaysia – *The Asset Triple A Asian Awards*
6. Best Cash Management Bank in Malaysia – *Euromoney*
8. Best Foreign Bank in Malaysia – *Alpha Southeast Asia*
9. Best Foreign Exchange Provider 2010 – *Global Finance*

The Group is committed to developing products and solutions in response to market trends and has expanded its range of market related products and services accordingly. As a pioneer sukuk provider, HSBC Amanah Malaysia Berhad's ("HSBC Amanah") brand name was also used as leverage to expand its market share of the Islamic global markets business. The Bank capitalised on its debt capital market leadership to secure key deals, and 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 fourth consecutive year.

Retail banking experienced intensified competition from both new and existing competitors and a decline in cards issuance due to the introduction of the credit card service tax in late 2009. However, robust growth in domestic consumption and the normalisation of interest rates allowed retail banking to grow in strength. In 2010, the Group focused on expanding its investment and insurance product range and the Premier and Advance proposition for both the conventional and Islamic banks.

HSBC Amanah was awarded the Best Foreign Islamic Bank in Malaysia by Alpha Southeast Asia, a testament to its commitment in providing a comprehensive and innovative range of Islamic financing products and services. HSBC Amanah opened 4 more branches in 2010, bringing its total branch network to 8, in addition to launching its own version of Amanah Premier and Advance, which offers globally linked up banking services with Shariah compliant financial solutions.

In commercial and corporate banking, the Group continues to capitalise on the competitive advantage offered by its international network and connectivity. There is an increased emphasis on building stronger alignment among domestic business segments and with HSBC offices worldwide.

During the year, the Group successfully launched One HSBC Account Opening module in Malaysia. The One HSBC initiative is a re-engineering process to place HSBC Group offices worldwide onto a single global system or platform and is part of HSBC Group's strategy in managing costs and improving efficiencies by promoting direct chanels, automating manual processes and eliminating redundant systems.

The Group also continues to make a significant commitment to corporate sustainability ("CS") through a focus on three major areas: Environment, Education and Community. The Group contributed to various educational, community and charity programmes during the year, including sponsoring NGOs on environmental research projects.

**Outlook For 2011**

The Malaysian economy has shown a fairly consistent and progressive pattern of recovery since the onset of the global financial crisis which began in mid-2008. In 2010, the pace of recovery has been fairly stable, more robust in the earlier part of the year, and gradually more subdued towards the end of the year; partly due to the economy shifting into a more normalised phase, and also over concerns on vulnerable Euro area economies and slower than anticipated growth from the larger emerging markets. Growth in 2010 was mainly driven by healthy domestic demand and stronger trade activities amid slowing external demand. The expansion in domestic demand is expected to be a key driver of growth in 2011.

The Malaysian government is committed to bring about the rapid resumption of growth in the economy through the creation of an environment conducive for trade and investment. Under the 10th Malaysia Plan ("10 MP"), the government has allocated RM230 billion as development expenditure. A number of high impact projects have been earmarked for implementation under the 10 MP, and this could generate more economic activity and build up the demand for credit and the need for other banking services. These, along with further liberalisation efforts in the financial services sector will attract more investors in the long run. The normalising interest rate environment also bodes well for the Group from a net interest margin perspective.

The increase in the number of Islamic financial institutions in the country, and the growth in assets of these institutions indicates a robust demand for Islamic financial services. The HSBC Amanah brand name will be leveraged by the Group to expand its market share of the Islamic financing business both locally and internationally and as a platform to tap into the Government sector. The focus in 2011 will remain on growing the Premier and Advance proposition for both the conventional and Islamic banks, with wealth management services being a key area of attention. The Group intends to increase its current share of high quality assets via the relationship-based approach, and build on cross referrals and cross selling of various banking products to the Group's existing customers by leveraging on the HSBC brand name, global reach and connectivity.

To date, HSBC Amanah has 8 branches and there are plans to open more branches nationwide within the next two years while the Bank has just opened two more conventional branches in January 2011, one in Mont Kiara and another in Sungai Choh, Selangor.

Rigorous credit risk management and strict cost control will remain a key to ensuring a healthy bottom line for the business in 2011. 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.

**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 (resigned on 5 February 2010)
Peter Wong Tung Shun (appointed on 5 February 2010)
Mukhtar Malik Hussain
Jonathan William Addis
Tan Sri Dato' Sulaiman bin Sujak
Dato' Henry Sackville Barlow
Datuk Ramli bin Ibrahim
Datuk Dr Zainal Aznam bin Mohd Yusof (retired at the AGM on 5 March 2010)
Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem
Dato' Zuraidah binti Atan (retired at the AGM on 5 March 2010)
Ching Yew Chye

In accordance with Articles 77 and 78 of the Articles of Association, Mr Ching Yew Chye shall retire from the Board at the forthcoming Annual General Meeting and being eligible, offers himself for re-election.

In accordance with Article 84 of the Articles of Association, Mr Peter Wong Tung Shun who has been appointed since the last Annual General Meeting shall retire at the forthcoming Annual General Meeting, and being eligible, offers himself for re-election.

In accordance with Section 129(2) of the Companies Act, 1965, Tan Sri Dato' Sulaiman bin Sujak, Datuk Ramli bin Ibrahim and Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem being over seventy years (70) of age, shall retire at the Annual General Meeting, and being eligible, offer themselves 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:

| | Number of Shares | | | |
|---|---|---|---|---|
| Name | Balance at 1.1.2010 (or at date of appointment) | Bought | (Sold) | Balance at 31.12.2010 |
| **HSBC Holdings plc** | | | | |
| **Ordinary shares of USD0.50** | | | | |
| Peter Wong Tung Shun | 228,983 | 38,541(A) | - | 267,524(#) |
| Jonathan William Addis | 570 | - | - | 570 |
| Tan Sri Dato' Sulaiman bin Sujak | 74,380 | 2,514 (B) | - | 76,894 |
| Dato' Henry Sackville Barlow | 1,100,000(*) | - | - | 1,100,000(*) |
| Ching Yew Chye | 30,000 | 942 (B) | - | 30,942 |

*(A) Shares were acquired through transfer of shares from HSBC Share Plan and scrip dividends.*
*(B) Shares were acquired through scrip dividends.*
*(#) Including the interest of spouse.*
*(*) Indirect interest held through Majedie Investments plc*

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

| Name | Shares held at 1.1.2010 (or at date of appointment) | Shares issued during year * | (Shares forfeited during the year) | (Shares vested during the year) | Shares held at 31.12.2010 |
|---|---|---|---|---|---|
| | **Number of Shares** | | | | |
| **HSBC Holdings plc Restricted Share Plan** | | | | | |
| Mukhtar Malik Hussain | 198,196 | - | - | 198,196 | - |
| Jonathan William Addis | 54,135 | 18,634 | - | 6,688 | 66,081 |

** Includes scrip dividends*

| Name | Shares held at 1.1.2010 (or at date of appointment) | Shares issued during year ^ | (Shares forfeited during the year) | (Shares vested during the year) | Shares held at 31.12.2010 |
|---|---|---|---|---|---|
| | **Number of Shares** | | | | |
| **HSBC Holdings plc HSBC Share Plan** | | | | | |
| Peter Wong Tung Shun | 242,214 | 97,752 | - | 31,941 | 308,025 |
| Mukhtar Malik Hussain | 546,820 | 198,510 | - | - | 745,330 |

^ *Includes scrip dividends*

| Name | Balance at 1.1.2010 (or at date of appointment) | Granted | (Exercised) | (Lapsed) | Balance at 31.12.2010 |
|---|---|---|---|---|---|
| | **Number of Options** | | | | |
| **Options over HSBC Holdings plc Shares** | | | | | |
| Jonathan William Addis | 31,979 | - | 5,738 | - | 26,241 |

**Directors and their Interests in Shares**

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full-time employee of the Bank or of 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.

There were no arrangements to which the Bank is a party during and at the end of the financial year which had the objective of enabling the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate, except for:

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

ii Directors who were conditionally awarded shares of the ultimate holding company, HSBC Holdings plc, under its Restricted Share Plan/HSBC Share Plan.

**Ultimate Holding Company**

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

**Auditors**

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

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

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

..............................................Director
**JONATHAN WILLIAM ADDIS**

Kuala Lumpur, Malaysia
10 February 2011

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

## 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 38 to 130 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 2010 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 10 February 2011

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

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

.......................................................Director
JONATHAN WILLIAM ADDIS

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

## 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 38 to 130 are correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur, Malaysia on 10 February 2011.

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

BALDEV SINGH s/o GURDIAL SINGH

BEFORE ME:

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

Signature of Commissioner for Oaths

PESURUHJAYA SUMPAH
W 325
TAN BOON CHUA
MALAYSIA

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

KPMG

**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
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Internet www.kpmg.com.my

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

## 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 statements of financial position as at 31 December 2010 of the Group and of the Bank, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 38 to 130.

*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 Guidelines, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

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

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

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

*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 2010 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: 2613/12/12(J)
Chartered Accountant

Date: 10 February 2011

Petaling Jaya

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

## STATEMENTS OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2010

| | | *Group* | | *Bank* | |
|---|---|---|---|---|---|
| | | **2010** | 2009 | **2010** | 2009 |
| | **Note** | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Assets** | | | Restated | | Restated |
| Cash and short term funds | *6* | **11,815,604** | 11,709,558 | **10,658,860** | 11,480,483 |
| Securities purchased under resale agreements | | **6,467,863** | 6,780,923 | **6,467,863** | 6,780,923 |
| Deposits and placements with banks and other financial institutions | *7* | **330,981** | 142,812 | **1,471,815** | 1,085,869 |
| Financial Assets Held-for-Trading | *8* | **4,895,060** | 1,282,817 | **4,747,054** | 1,155,431 |
| Financial Investments Available-for-Sale | *9* | **3,400,090** | 4,855,892 | **3,069,425** | 4,471,672 |
| Loans, advances and financing | *10* | **34,076,044** | 28,623,792 | **29,439,768** | 25,458,819 |
| Other assets | *12* | **2,024,019** | 1,135,215 | **1,979,356** | 1,116,912 |
| Statutory deposits with Bank Negara Malaysia | *13* | **221,827** | 178,827 | **187,098** | 150,298 |
| Investments in subsidiary companies | *14* | **-** | - | **660,021** | 660,021 |
| Property and equipment | *16* | **318,481** | 287,872 | **302,056** | 280,372 |
| Intangible assets | *17* | **60,621** | 57,187 | **59,122** | 54,964 |
| Deferred tax assets | *18* | **168,344** | 82,614 | **150,342** | 68,730 |
| **Total assets** | | **63,778,934** | 55,137,509 | **59,192,780** | 52,764,494 |
| | | | | | |
| **Liabilities** | | | | | |
| Deposits from customers | *19* | **48,339,424** | 44,686,358 | **44,556,909** | 42,213,968 |
| Deposits and placements of banks and other financial institutions | *20* | **6,853,048** | 2,819,638 | **6,261,536** | 2,710,022 |
| Bills and acceptances payable | | **429,229** | 311,616 | **423,698** | 308,318 |
| Other liabilities | *21* | **2,436,128** | 1,821,930 | **2,358,496** | 2,118,650 |
| Recourse obligation on loans sold to Cagamas Berhad | | **374,991** | 575,511 | **374,991** | 575,511 |
| Provision for taxation and zakat | *22* | **103,158** | 37,773 | **98,710** | 33,986 |
| Subordinated bonds | *23* | **1,003,039** | 1,000,385 | **1,003,039** | 1,000,385 |
| **Total liabilities** | | **59,539,017** | 51,253,211 | **55,077,379** | 48,960,840 |
| | | | | | |
| **Equity** | | | | | |
| Share capital | *24* | **114,500** | 114,500 | **114,500** | 114,500 |
| Reserves | *25* | **3,875,417** | 3,519,798 | **3,750,901** | 3,439,154 |
| Proposed dividend | | **250,000** | 250,000 | **250,000** | 250,000 |
| **Total equity attributable to shareholder of the Bank** | | **4,239,917** | 3,884,298 | **4,115,401** | 3,803,654 |
| | | | | | |
| **Total liabilities and equity** | | **63,778,934** | 55,137,509 | **59,192,780** | 52,764,494 |
| | | | | | |
| **Commitments and Contingencies** | *38* | **87,503,362** | 75,667,293 | **85,680,212** | 74,087,292 |

*The financial statements were approved and authorised for issue by the Board of Directors on 10 February 2011.*

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

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

## STATEMENTS OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2010

| | | *Group* | | *Bank* | |
|---|---|---|---|---|---|
| | | **2010** | 2009 | **2010** | 2009 |
| | ***Note*** | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Revenue | | **3,341,908** | 3,007,372 | **3,084,859** | 2,789,345 |
| Interest income | *26* | **1,900,972** | 1,758,293 | **1,934,545** | 1,782,623 |
| Interest expense | *26* | **(807,954)** | (737,531) | **(807,954)** | (737,531) |
| Net interest income | *26* | **1,093,018** | 1,020,762 | **1,126,591** | 1,045,092 |
| Fee and commission income | *27* | **460,741** | 426,559 | **460,741** | 426,559 |
| Fee and commission expense | *27* | **(30,149)** | (25,734) | **(30,149)** | (25,734) |
| Net fee and commission income | *27* | **430,592** | 400,825 | **430,592** | 400,825 |
| Net trading income | *28* | **549,002** | 434,676 | **549,002** | 434,676 |
| Income from Islamic banking operations | *29* | **322,634** | 270,220 | **-** | - |
| Other operating income | *30* | **42,073** | 66,639 | **140,571** | 145,487 |
| Operating income before impairment losses | | **2,437,319** | 2,193,122 | **2,246,756** | 2,026,080 |
| Loans / financing impairment charges and other credit risk provisions | *31* | **(239,338)** | (258,907) | **(168,494)** | (211,467) |
| Impairment losses on available-for-sale financial investments | | **-** | (9,637) | **-** | (9,637) |
| Net operating income | | **2,197,981** | 1,924,578 | **2,078,262** | 1,804,976 |
| Other operating expenses | *32* | **(1,150,849)** | (1,041,847) | **(1,094,408)** | (999,673) |
| Profit before income tax expense and zakat | | **1,047,132** | 882,731 | **983,854** | 805,303 |
| Income tax expense and zakat | *33* | **(281,778)** | (227,612) | **(262,913)** | (207,670) |
| **Profit for the year** | | **765,354** | 655,119 | **720,941** | 597,633 |
| **Other comprehensive income** | | | | | |
| Revaluation reserve: | | | | | |
| Surplus on revaluation property | | **8,226** | 10,542 | **8,226** | 10,542 |
| Deferred tax adjustment on revaluation reserve | | **(850)** | (249) | **(850)** | (249) |
| Fair value reserve (available-for-sale financial investments): | | | | | |
| Change in fair value | | **36,397** | 1,586 | **37,162** | 2,477 |
| Amount transferred to profit or loss | | **(15,174)** | (23,079) | **(15,174)** | (23,079) |
| Impairment charges reclassified to income statement | | **-** | 9,637 | **-** | 9,637 |
| Income tax relating to components of other comprehensive income | | **(5,305)** | 2,978 | **(5,497)** | 2,741 |
| **Other comprehensive income for the year, net of income tax** | | **23,294** | 1,415 | **23,867** | 2,069 |
| **Total comprehensive income for the year** | | **788,648** | 656,534 | **744,808** | 599,702 |
| Profit attributable to shareholder of the Bank | | **765,354** | 655,119 | **720,941** | 597,633 |
| Total comprehensive income attributable to shareholder of the Bank | | **788,648** | 656,534 | **744,808** | 599,702 |
| Basic earnings per RM0.50 share | *34* | **334.2 sen** | 286.1 sen | **314.8 sen** | 261.0sen |
| Dividends per RM0.50 ordinary share (net) | | | | | |
| - interim dividend paid | | **87.3 sen** | 87.3 sen | **87.3 sen** | 87.3 sen |
| - proposed | | **109.2 sen** | 109.2 sen | **109.2 sen** | 109.2 sen |

*The financial statements were approved and authorised for issue by the Board of Directors on 10 February 2011.*

*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 2010

| | *Group* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | ← *Non-distributable* | | | | | → | *Distributable* | | | |
| | *Share capital* | *Share premium* | *Statutory reserve* | *Revaluation reserve* | *Capital redemption reserve* | *Available-for-sale reserve* | *Retained profit* | *Total reserves* | *Proposed dividends* | *Total shareholder's equity* |
| | **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 2009 | 114,500 | 741,375 | 125,861 | 122,723 | 190,000 | (2,528) | 2,135,618 | 3,313,049 | 150,000 | 3,577,549 |
| **Total comprehensive income for the year** | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 655,119 | 655,119 | - | 655,119 |
| -Amount transferred to statutory reserves | - | - | 28,743 | - | - | - | (28,743) | - | - | - |
| **Other comprehensive income, net of income tax** | | | | | | | | | | |
| Deferred tax adjustment on revaluation reserve | - | - | - | (249) | - | - | - | (249) | - | (249) |
| Surplus on revaluation of property | - | - | - | 10,542 | - | - | - | 10,542 | - | 10,542 |
| Fair value reserve (available-for-sale financial investments): | | | | | | | | | | |
| Net change in fair value | - | - | - | - | - | 1,203 | - | 1,203 | - | 1,203 |
| Net amount transferred to profit or loss on disposal | - | - | - | - | - | (17,309) | - | (17,309) | - | (17,309) |
| Impairment charges reclassified to income statement | - | - | - | - | - | 7,228 | - | 7,228 | | 7,228 |
| Total other comprehensive income | - | - | - | 10,293 | - | (8,878) | - | 1,415 | - | 1,415 |
| Total comprehensive income for the period | - | - | 28,743 | 10,293 | - | (8,878) | 626,376 | 656,534 | - | 656,534 |
| Reversal of downward revaluation of property from retained earnings upon adoption of FRS 117 (Prior year adjustment) | - | - | - | 200 | - | - | 15 | 215 | - | 215 |
| **Transactions with shareholder, recorded directly in equity** | | | | | | | | | | |
| Dividends paid to shareholder - 2008 final | - | - | - | - | - | - | - | - | (150,000) | (150,000) |
| Dividends paid to shareholder - 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 | 133,216* | 190,000 | (11,406) | 2,312,009* | 3,519,798 | 250,000 | 3,884,298 |
| Balance as at 1 January 2010 | **114,500** | **741,375** | **154,604** | **133,216** | **190,000** | **(11,406)** | **2,312,009** | **3,519,798** | **250,000** | **3,884,298** |
| -effect of adopting FRS 139 | - | - | - | - | - | - | **9,284** | **9,284** | - | **9,284** |
| Balance as at 1 January 2010, as restated | **114,500** | **741,375** | **154,604** | **133,216** | **190,000** | **(11,406)** | **2,321,293** | **3,529,082** | **250,000** | **3,893,582** |
| **Total comprehensive income for the year** | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | **765,354** | **765,354** | - | **765,354** |
| -Amount transferred to statutory reserves | - | - | **9,896** | - | - | - | **(9,896)** | - | - | - |
| **Other comprehensive income, net of income tax** | | | | | | | | | | |
| Deferred tax adjustment on revaluation reserve | - | - | - | **(846)** | - | - | **(4)** | **(850)** | - | **(850)** |
| Revaluation reserve: | | | | | | | | | | |
| Transfer to retained profit upon realisation of depreciation | - | - | - | **(1,486)** | - | - | **1,486** | - | - | - |
| Surplus on revaluation property | - | - | - | **8,226** | - | - | - | **8,226** | - | **8,226** |
| Fair value reserve (available-for-sale financial investments): | | | | | | | | | | |
| Net change in fair value | - | - | - | - | - | **27,302** | - | **27,302** | - | **27,302** |
| Net amount transferred to profit or loss on disposal | - | - | - | - | - | **(11,384)** | - | **(11,384)** | - | **(11,384)** |
| Total other comprehensive income | - | - | - | **5,894** | - | **15,918** | **1,482** | **23,294** | - | **23,294** |
| Total comprehensive income for the period | - | - | **9,896** | **5,894** | - | **15,918** | **756,940** | **788,648** | - | **788,648** |
| **Transactions with shareholder, recorded directly in equity** | | | | | | | | | | |
| Share based payment transactions | - | - | - | - | - | - | **7,687** | **7,687** | - | **7,687** |
| Dividends paid to shareholder - 2009 final | - | - | - | - | - | - | - | - | **(250,000)** | **(250,000)** |
| Dividends paid to shareholder - 2010 interim | - | - | - | - | - | - | **(200,000)** | **(200,000)** | - | **(200,000)** |
| Proposed dividend - 2010 final | - | - | - | - | - | - | **(250,000)** | **(250,000)** | **250,000** | - |
| Balance as at 31 December 2010 | **114,500** | **741,375** | **164,500** | **139,110** | **190,000** | **4,512** | **2,635,920** | **3,875,417** | **250,000** | **4,239,917** |

** This figure has been restated.Please refer to Note 2 e(v) for further details.*

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

## STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

| | *Bank* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | ← *Non-distributable* → | | | | | | *Distributable* | | | |
| | *Share capital* | *Share premium* | *Statutory reserve* | *Revaluation reserve* | *Capital redemption reserve* | *Available-for-sale reserve* | *Retained profit* | *Total reserves* | *Proposed dividends* | *Total shareholder's equity* |
| | **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 2009 | 114,500 | 741,375 | 114,500 | 122,723 | 190,000 | (3,619) | 2,124,258 | 3,289,237 | 150,000 | 3,553,737 |
| **Total comprehensive income for the year** | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 597,633 | 597,633 | - | 597,633 |
| **Other comprehensive income, net of income tax** | | | | | | | | | | |
| Deferred tax adjustment on revaluation reserve | - | - | - | (249) | - | - | - | (249) | - | (249) |
| Surplus on revaluation of property | - | - | - | 10,542 | - | - | - | 10,542 | - | 10,542 |
| Fair value reserve (available-for-sale financial investments): | | | | | | | | | | |
| Net change in fair value | - | - | - | - | - | 1,857 | - | 1,857 | - | 1,857 |
| Net amount transferred to profit or loss on disposal | - | - | - | - | - | (17,309) | - | (17,309) | - | (17,309) |
| Impairment charges reclassified to income statement | - | - | - | - | - | 7,228 | - | 7,228 | - | 7,228 |
| Total other comprehensive income | - | - | - | 10,293 | - | (8,224) | - | 2,069 | - | 2,069 |
| Total comprehensive income for the period | - | - | - | 10,293 | - | (8,224) | 597,633 | 599,702 | - | 599,702 |
| Reversal of downward revaluation of property from retained earnings upon adoption of FRS 117 (Prior year adjustment) | - | - | - | 200 | - | - | 15 | 215 | - | 215 |
| **Transactions with shareholder, recorded directly in equity** | | | | | | | | | | |
| Dividends paid to shareholder - 2008 final | - | - | - | - | - | - | - | - | (150,000) | (150,000) |
| Dividends paid to shareholder - 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 | 133,216* | 190,000 | (11,843) | 2,271,906* | 3,439,154 | 250,000 | 3,803,654 |
| | | | | | | | | | | |
| Balance as at 1 January 2010 | **114,500** | **741,375** | **114,500** | **133,216** | **190,000** | **(11,843)** | **2,271,906** | **3,439,154** | **250,000** | **3,803,654** |
| -effect of adopting FRS 139 | **-** | **-** | **-** | **-** | **-** | **-** | **9,252** | **9,252** | **-** | **9,252** |
| Balance as at 1 January 2010, as restated | **114,500** | **741,375** | **114,500** | **133,216** | **190,000** | **(11,843)** | **2,281,158** | **3,448,406** | **250,000** | **3,812,906** |
| **Total comprehensive income for the year** | | | | | | | | | | |
| Profit for the year | **-** | **-** | **-** | **-** | **-** | **-** | **720,941** | **720,941** | **-** | **720,941** |
| **Other comprehensive income, net of income tax** | | | | | | | | | | |
| Deferred tax adjustment on revaluation reserve | **-** | **-** | **-** | **(846)** | **-** | **-** | **(4)** | **(850)** | **-** | **(850)** |
| Revaluation reserve: | | | | | | | | | | |
| Transfer to retained profit upon realisation of depreciation | **-** | **-** | **-** | **(1,486)** | **-** | **-** | **1,486** | **-** | **-** | **-** |
| Surplus on revaluation property | **-** | **-** | **-** | **8,226** | **-** | **-** | **-** | **8,226** | **-** | **8,226** |
| Fair value reserve (available-for-sale financial investments): | | | | | | | | | | |
| Net change in fair value | **-** | **-** | **-** | **-** | **-** | **27,875** | **-** | **27,875** | **-** | **27,875** |
| Net amount transferred to profit or loss on disposal | **-** | **-** | **-** | **-** | **-** | **(11,384)** | **-** | **(11,384)** | **-** | **(11,384)** |
| Total other comprehensive income | **-** | **-** | **-** | **5,894** | **-** | **16,491** | **1,482** | **23,867** | **-** | **23,867** |
| Total comprehensive income for the period | **-** | **-** | **-** | **5,894** | **-** | **16,491** | **722,423** | **744,808** | **-** | **744,808** |
| **Transactions with shareholder, recorded directly in equity** | | | | | | | | | | |
| Share based payment transactions | **-** | **-** | **-** | **-** | **-** | **-** | **7,687** | **7,687** | **-** | **7,687** |
| Dividends paid to shareholder - 2009 final | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(250,000)** | **(250,000)** |
| Dividends paid to shareholder - 2010 interim | **-** | **-** | **-** | **-** | **-** | **-** | **(200,000)** | **(200,000)** | **-** | **(200,000)** |
| Proposed dividend - 2010 final | **-** | **-** | **-** | **-** | **-** | **-** | **(250,000)** | **(250,000)** | **250,000** | **-** |
| Balance as at 31 December 2010 | **114,500** | **741,375** | **114,500** | **139,110** | **190,000** | **4,648** | **2,561,268** | **3,750,901** | **250,000** | **4,115,401** |

** This figure has been restated.Please refer to Note 2 e(v) for further details.*
*The accompanying notes form an integral part of the financial statements.*

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

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

| | *Group* | |
|---|---|---|
| | **2010** | 2009 |
| | **RM'000** | RM'000 |
| **Cash Flows from Operating Activities** | | |
| Profit before income tax expense and zakat | **1,047,132** | 882,731 |
| Adjustments for : | | |
| Property and equipment written off | **218** | 82 |
| Depreciation of property and equipment | **34,103** | 34,611 |
| Amortisation of intangible assets | **26,261** | 22,482 |
| Net gains on disposal of property and equipment | **(15)** | (312) |
| Net (upwards)/downwards revaluation on property | **(18)** | 28 |
| Net gains on disposal of equipment recognised under Income from Islamic Banking | **-** | (56) |
| Share-based payment transactions | **7,687** | - |
| Dividend income | **(1,460)** | (1,753) |
| Operating profit before changes in operating assets | **1,113,908** | 937,813 |
| Decrease/ (Increase) in operating assets | | |
| Securities purchased under resale agreements | **313,060** | (3,002,130) |
| Deposits and placements with banks and other financial institutions | **(188,169)** | 855,002 |
| Financial Assets Held-for-Trading | **(3,612,243)** | 2,208,442 |
| Loans, advances and financing | **(5,442,968)** | 1,095,478 |
| Other assets | **(886,150)** | 253,703 |
| Statutory deposits with Bank Negara Malaysia | **(43,000)** | 474,199 |
| Increase/ (Decrease) in operating liabilities | | |
| Deposits from customers | **3,653,066** | 3,732,886 |
| Deposits and placements of banks and other financial institutions | **4,033,410** | (711,834) |
| Bills and acceptances payable | **117,613** | (102,617) |
| Other liabilities | **617,293** | (747,789) |
| Recourse obligation on loans sold to Cagamas Berhad | **(200,520)** | (125,859) |
| Net cash (used in)/generated from operating activities before income tax | **(524,700)** | 4,867,294 |
| Income tax and zakat paid | **(311,373)** | (222,997) |
| Net cash (used in)/generated from operating activities | **(836,073)** | 4,644,297 |
| **Cash Flows from Investing Activities** | | |
| Purchase of property and equipment | **(56,715)** | (34,315) |
| Purchase of intangible assets | **(29,695)** | (28,516) |
| Proceeds from disposal of property and equipment | **44** | 557 |
| Financial Investments Available-for-Sale | **1,477,025** | (952,772) |
| Dividends received | **1,460** | 1,753 |
| Net cash generated from/(used in) investing activities | **1,392,119** | (1,013,293) |
| **Cash Flow from Financing Activity** | | |
| Dividends paid | **(450,000)** | (350,000) |
| Net cash used in financing activity | **(450,000)** | (350,000) |
| **Net increase in Cash and Cash Equivalents** | **106,046** | 3,281,004 |
| **Cash and Cash Equivalents at beginning of year** | **11,709,558** | 8,428,554 |
| **Cash and Cash Equivalents at end of year** | **11,815,604** | 11,709,558 |
| **Analysis of Cash and Cash Equivalents** | | |
| Cash and short-term funds | **11,815,604** | 11,709,558 |

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

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

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

| | *Bank* | |
|---|---|---|
| | **2010** | 2009 |
| | **RM'000** | RM'000 |
| **Cash Flows from Operating Activities** | | |
| Profit before income tax expense | **983,854** | 805,303 |
| Adjustments for : | | |
| Property and equipment written off | **216** | 82 |
| Depreciation of property and equipment | **30,479** | 33,058 |
| Amortisation of intangible assets | **25,525** | 21,795 |
| Net gains on disposal of property and equipment | **(15)** | (312) |
| Net (upwards)/downwards revaluation on property | **(18)** | 28 |
| Share-based payment transactions | **7,687** | - |
| Dividend income | **(1,460)** | (1,753) |
| Operating profit before changes in operating assets | **1,046,268** | 858,201 |
| Decrease/ (Increase) in operating assets | | |
| Securities purchased under resale agreements | **313,060** | (3,002,130) |
| Deposits and placements with banks and other financial institutions | **(385,946)** | 855,256 |
| Financial Assets Held-for-Trading | **(3,591,623)** | 2,068,090 |
| Loans, advances and financing | **(3,971,697)** | 1,333,420 |
| Other assets | **(859,790)** | 280,463 |
| Statutory deposits with Bank Negara Malaysia | **(36,800)** | 430,199 |
| Increase/ (Decrease) in operating liabilities | | |
| Deposits from customers | **2,342,941** | 4,504,816 |
| Deposits and placements of banks and other financial institutions | **3,551,514** | (821,450) |
| Bills and acceptances payable | **115,380** | (104,862) |
| Other liabilities | **242,930** | (495,855) |
| Recourse obligation on loans sold to Cagamas Berhad | **(200,520)** | (125,859) |
| Net cash (used in)/generated from operating activities before income tax | **(1,434,283)** | 5,780,289 |
| Income tax paid | **(289,232)** | (209,578) |
| Net cash (used in)/generated from operating activities | **(1,723,515)** | 5,570,711 |
| **Cash Flows from Investing Activities** | | |
| Purchase of property and equipment | **(44,148)** | (27,731) |
| Purchase of intangible assets | **(29,683)** | (26,970) |
| Proceeds from disposal of property and equipment | **28** | 487 |
| Financial Investments Available-for-Sale | **1,424,235** | (1,133,222) |
| Dividend received | **1,460** | 1,753 |
| Net cash generated from/(used in) investing activities | **1,351,892** | (1,185,683) |
| **Cash Flows from Financing Activity** | | |
| Dividends paid | **(450,000)** | (350,000) |
| Net cash used in financing activity | **(450,000)** | (350,000) |
| **Net (decrease)/increase in Cash and Cash Equivalents** | **(821,623)** | 4,035,028 |
| **Cash and Cash Equivalents at beginning of year** | **11,480,483** | 7,445,455 |
| **Cash and Cash Equivalents at end of year** | **10,658,860** | 11,480,483 |
| **Analysis of Cash and Cash Equivalents** | | |
| Cash and short-term funds | **10,658,860** | 11,480,483 |

*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 2010**

## 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 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, generally accepted accounting principles and Financial Reporting Standards ("FRS") 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.

All significant accounting policies adopted are consistent with those of the audited financial statements for the financial year ended 31 December 2009, except for the adoption of the following FRSs, amendments to FRSs and Issues Committee ("IC") Interpretations.

**FRSs / Interpretations**
-FRS 127, Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
-Amendments to FRS 2, Share-based Payment: Vesting Conditions and Cancellations
-Amendment to FRS 117, Leases
-FRS 7, Financial Instruments: Disclosures
-FRS 101, Presentation of Financial Statements
-Amendments to FRS 132, Financial Instruments: Presentation and FRS 101, Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
-FRS 139, Financial Instruments: Recognition and Measurement
-Amendments to FRS 139, Financial Instruments: Recognition and Measurement, FRS 7, Financial Instruments: Disclosures and IC Interpretation 9, Reassessment of Embedded Derivatives
-Improvements to FRSs (2009)
-IC Interpretation 9, Reassessment of Embedded Derivatives
-IC Interpretation 10, Interim Financial Reporting and Impairment-
-IC Interpretation 11, FRS 2 - Group and Treasury Share Transactions

FRS 4 (Insurance Contracts), FRS 8 (Operating Segments) and IC Interpretation 14 (FRS 119 -The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction) are not applicable to the Group and the Bank. The adoption of FRS 7, FRS 101 and amendments to FRS 132 did not impact the financial results of the Group and the Bank, as the changes introduced are presentational in nature. The changes in presentation arising from the adoption of FRS 7 and FRS 101 are disclosed in Note 2(e). The principal effects of the changes in accounting policies arising from the adoption of FRS 139 and its related amendments and FRS 117 are disclosed in Note 2e(v).

## 2 Basis of Preparation (Cont'd)

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

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. BNM's guidelines on Classification and Impairment Provisions for Loans/Financing issued on 8 January 2010 require banking institutions to maintain collective impairment provisions of at least 1.5% of total outstanding loans/financing, net of individual impairment provision. Subject to the prior written approval from BNM, banking institutions are allowed to maintain a collective impairment assessment provision based on the banks' respective collective impairment assessment methodology.

The adoption of the remaining FRSs, amendments to FRSs and IC Interpretations did not have any material impact on the financial results of the Group and the Bank.

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.

| **FRS/Interpretations** | **Effective date** |
|---|---|
| - FRS 1, First-time Adoption of Financial Reporting Standards | 1 July 2010 |
| - FRS 3, Business Combinations | 1 July 2010 |
| - FRS 124, Related Party Disclosures (revised) | 1 Jan 2012 |
| - FRS 127, Consolidated and Separate Financial Statements | 1 July 2010 |
| - IC Interpretation 4, Determining whether an Arrangement contains a Lease | 1 Jan 2011 |
| - IC Interpretation 12, Service Concession Arrangements | 1 July 2010 |
| - IC Interpretation 15, Agreements for the Construction of Real Estate | 1 Jan 2012 |
| - 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 |
| - IC Interpretation 18, Transfers of Assets from Customers | 1 Jan 2011 |
| - IC Interpretation 19, Extinguishing Financial Liabilities with Equity Instruments | 1 July 2011 |
| - Amendments to FRS 1, First Time Adoption of Financial Reporting Standards- Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters and Additional Exemptions for First-time Adopters. | 1 Jan 2011 |
| - Amendments to FRS 132, Financial Instruments: Presentation – Classification of Rights Issues | 1 Mar 2010 |
| - Amendments to FRS 2, Share-based Payment | 1 July 2010 |
| - Amendments to FRS 2, Group Cash-settled Share-based Payment Transactions | 1 Jan 2011 |
| - Amendments to FRS 5, Non-current Assets Held for Sale and Discontinued Operations | 1 July 2010 |
| - Amendments to FRS 7, Financial Instruments: Disclosures- Improving Disclosures about Financial Instruments | 1 Jan 2011 |
| - Amendments to FRS 138, Intangible Assets | 1 July 2010 |
| - Amendments to IC Interpretation 9, Reassessment of Embedded Derivatives | 1 July 2010 |
| - Amendments to IC Interpretation 14, Prepayments of a Minimum Funding Requirement | 1 July 2011 |
| - Improvements to FRSs (2010) | 1 Jan 2011 |

The new requirements above take effect for the annual periods beginning on or after 1 July 2010, except for:-

i) Amendments to FRS 132, Financial Instruments: Presentation – Classification of Rights Issues which applies for annual periods beginning on or after 1 March 2010

ii) IC Interpretations 4 and 18, Amendments to FRS 1, 2 (Group Cash-settled Share-based Payment Transactions), 7 and Improvements to FRSs (2010) which apply for annual periods beginning on or after 1 January 2011,

iii) IC Interpretation 19 and Amendments to IC Interpretation 14 which apply for annual periods beginning on or after 1 July 2011, and

iv) FRS 124 and IC Interpretation 15 which applies for annual periods beginning on or after 1 January 2012.

The Group and the Bank plan to apply the abovementioned standards, amendments and interpretations from the annual period beginning on 1 January 2011 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 Mar 2010, 1 July 2010 and 1 January 2011, except for IC Interpretations 12, 15, 16 and 17 which are not applicable to the Group and the Bank. IC Interpretations 12, 15, 16 and 17 are not expected to have any impact on the financial statements of the Group as they are not relevant to the operations of the Group.

## 2 Basis of Preparation (Cont'd)

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

The initial application of a standard, an amendment or an interpretation, which will be applied prospectively or which requires extended disclosures, is not expected to have any financial impact to the current and prior periods financial statements upon their first adoption.

The initial applications of the other standards, amendments and interpretations are not expected to have any material impact on the financial statements of the Group.

### *(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:

- Financial assets held-for-trading
- Financial investments available-for-sale
- Property and equipment
- Financial instruments

### *(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 the financial statements in conformity with FRSs 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 estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in Note 5.

## 2 Basis of Preparation (Cont'd)

### *(e) Change in accounting policy*

The adoption of the new FRSs and amendments to FRSs shown below during the financial year has resulted in the following changes in accounting policies:

- FRS 139, Financial Instruments: Recognition and Measurement
- Amendments to FRS 139, Financial Instruments: Recognition and Measurement
- FRS 7, Financial Instruments: Disclosures
- IC Interpretation 9, Reassessment of Embedded Derivatives
- FRS 101, Presentation of Financial Statements
- Amendment to FRS 117, Leases

i) FRS 139, Financial Instruments: Recognition and Measurement

Prior to FRS 139 coming into effect on 1 Jan 2010, BNM's revised Guidelines on Financial Reporting for Licensed Institutions issued on 1 January 2005 adopted certain principles in connection with the recognition, derecognition and measurement of financial instruments, including derivative instruments, and hedge accounting that are in line with FRS 139 principles. By adhering to the BNM guidelines, the Group and the Bank adopted these FRS 139 principles. Therefore, the adoption of FRS 139 on 1 January 2010 only impacted areas where the FRS 139 principles were previously not incorporated into BNM's Guidelines issued in 2005 and these areas are disclosed below:

Impairment of Loans, Advances and Financing
The Group and the Bank's loans, advances and financing impairment policy and allowances for impaired loans, advances and financing are in conformity with FRS 139 and the requirements of Bank Negara Malaysia's revised "Guidelines on Classification and Impairment Provisions for Loans/Financing".

In line with the Amendments to FRS 139 which relates to the transitional arrangement for the financial sector, BNM's "Guidelines on Classification and Impairment Provisions for Loans/Financing" issued on 8 January 2010 prescribes that banking institutions are required to maintain collective impairment allowances of at least 1.5% of total outstanding loans/financing, net of individual impairment allowance. This is similar to the previous regulatory requirement whereby banking institutions were required to maintain general allowance provisions of least 1.5% of total outstanding loans/financing, net of specific allowance, with the exception that the determination of individual impairment allowance is required to be based on reasonable and well-documented estimates of the net present value of the future cash flows that the banking institutions expect to recover. Previously, BNM allowed specific allowance to be made based on the number of days in arrears of the loans/financing.

Prior to 1 January 2010, the Group and the Bank's accounting policy relating to the classification of impaired loans, advances and financing and the assessment of individual impairment allowances (previously referred to as specific allowances) on impaired loans, advances and financing (previously referred to as non-performing loans) was already largely in line with the requirements of FRS 139. The main change upon full adoption of FRS 139 and BNM's revised "Guidelines on Classification and Impairment Provisions for Loans/Financing" from 1 January 2010 onwards, is that BNM's previous requirement for additional individual impairment allowances for impaired loans/financing of more than 5 years and 7 years is no longer applicable under FRS 139 principles.

In view of the above, there have been minimum changes to the opening retained profits as well as opening individual or collective impairment allowance balances.

Interest/ Finance Income Recognition

Prior to the adoption of FRS 139, interest/finance income recognized as income 90 days prior to the date that a loan was classified as non-performing, would be reversed out of income and an interest/finance income in suspense was created. Thereafter, interest/finance income on the non-performing loan was only recognised as income upon recovery. With the adoption of FRS 139, once a loan has been assessed as impaired, there is no claw back of interest/finance income recognized previously and interest/finance income on the impaired loan is recognised using the rate of interest/profit used to discount the future cash flows for the purpose of measuring the impairment loss.

## 2 Basis of Preparation (Cont'd)

### *(e) Change in accounting policy (Cont'd)*

i) FRS 139, Financial Instruments: Recognition and Measurement (Cont'd)

Recognition of Embedded Derivatives

IC Interpretation 9 on Reassessment of Embedded Derivatives requires embedded derivatives to be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to that of the host contract and the fair value of the resulting derivative can be reliably measured.

The Group and the Bank's booking of embedded derivatives was already in line with this principle and hence, the implementation of IC Interpretation 9 has no impact on the Group and the Bank's financials.

ii) FRS 101, Presentation of Financial Statements

As a result of the adoption of the revised FRS 101, income statements of the Group and the Bank for the comparative year ended 31 December 2009 have been re-presented as a single statement of comprehensive income displaying components of profit and loss and other comprehensive income. All non-owner changes in equity which were previously presented in the statement of changes in equity are now included in the statement of comprehensive income as other comprehensive income. Since these changes only affect presentation aspects, there is no impact on earnings per ordinary share.

When an entity applies an accounting policy retrospectively and the impact is significant, FRS 101 requires presentation of a statement of financial position at the beginning of the earliest comparative period, in addition to statements at the end of the current period and at the end of the previous period. The changes to the statement of financial position as at 1 January 2009 due to the retrospective application of FRS 117 are disclosed in Note 2e(v). The other items in the statement of financial position as at 1 January 2009 are similar to that disclosed in the statement of financial position as at 31 December 2008 as disclosed in the audited financial statements for the year ended 31 December 2009.

iii) FRS 7, Financial Instruments: Disclosures

The adoption of FRS 7 during the financial period resulted in some changes to the disclosure of financial instruments, whereby the disclosures are now made by categories of financial assets and liabilities. The disclosure of comparative figures in the statement of financial position as at 31 December 2009 and the income statement for the year ended 31 December 2009 have been restated to conform with the current period's presentation. Since these changes only affect the presentation of disclosure items, there is no impact on the financial results of the Group and the Bank for the comparative period.

iv) Amendment to FRS 117, Leases

As a result of the adoption of the amendment to FRS 117 during the financial period, the Bank has reassessed and determined that all leasehold land of the Bank is in substance finance leases, resulting in its reclassification from prepaid lease payments to property and equipment. This change in accounting policy has been made retrospectively in accordance with the transitional provision of the amendment.

In accordance with the Group and the Bank's accounting policy for property and equipment, premises are stated at valuation less accumulated depreciation and impairment loss. Therefore, the reclassification also involved a change in value of the leasehold land whereby the carrying value of the prepaid lease payments was restated at the fair value of the leasehold land on a retrospective basis. Any revaluation surpluses are credited firstly to the statement of comprehensive income to the extent of any deficits arising on revaluation previously charged to the statement of comprehensive income 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 recognised through the statement of comprehensive income.

The impact on the basic earnings per ordinary share for the current and comparative periods in relation to the adoption of the amendment to FRS 117 are insignificant.

## 2 Basis of Preparation (Cont'd)

### *(e) Change in accounting policy (Cont'd)*

v) Adjustments due to Change in Accounting Policies

Amendment to FRS 117 : Leases

The following comparative figures have been restated following the adoption of the amendment to FRS 117. This change in accounting policy has been accounted for retrospectively in line with the transitional provisions of the amendment, resulting in:-

i) a reversal of downward revaluation of property amounting to RM15,000 to closing retained profits as at 31 December 2009,
ii) an increase of RM200,000 in closing revaluation reserve balance as at 31 December 2009,
iii) a decrease of RM67,000 in closing deferred tax assets balance as at 31 December 2009, and
iv) a reclassification of prepaid lease payments amounting to RM19,099,000 to property and equipment as at 31 December 2009.

Statement of financial position as at 31 December 2009

| | Group | | Bank | |
|---|---|---|---|---|
| | As restated | As previously stated | As restated | As previously stated |
| Assets:- | RM'000 | RM'000 | RM'000 | RM'000 |
| Prepaid lease payments | - | 19,099 | - | 19,099 |
| Property and equipment | 287,872 | 268,491 | 280,372 | 260,991 |
| Deferred tax assets | 82,614 | 82,681 | 68,730 | 68,797 |
| Reserves:- | | | | |
| Revaluation reserves | 133,216 | 133,016 | 133,216 | 133,016 |
| Retained profit | 2,312,009 | 2,311,994 | 2,271,906 | 2,271,891 |

FRS 101 requires presentation of a statement of financial position at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively. The changes to affected items on the statement of financial position as at 1 January 2009 due to the retrospective application of FRS 117 are disclosed below.

Statement of financial position as at 1 January 2009

| | Group | | Bank | |
|---|---|---|---|---|
| | As restated | As previously stated | As restated | As previously stated |
| Assets:- | RM'000 | RM'000 | RM'000 | RM'000 |
| Prepaid lease payments | - | 19,551 | - | 19,551 |
| Property and equipment | 277,643 | 258,092 | 275,160 | 255,609 |

FRS 139, Financial Instruments: Recognition and Measurement

The opening retained earnings of the Group and the Bank have been adjusted to reflect the recognition of discount unwind of individual impairment and the related deferred tax income/expense on the discount unwind balances not previously recognised in the Group and the Bank's financial statements prior to 1 Jan 2010 even though the Group and the Bank have adopted the discounted cash flow method to determine specific allowance required on non-performing loans.

Statement of financial position as at 1 January 2010

| | Group | | Bank | |
|---|---|---|---|---|
| | As restated | As previously stated | As restated | As previously stated |
| Reserves:- | RM'000 | RM'000 | RM'000 | RM'000 |
| Retained profit | 2,321,293 | 2,312,009 | 2,281,158 | 2,271,906 |

## 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, except as explained in note 2(e), which addresses changes in accounting policies.

### *(a) Basis of Consolidation*

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

**Subsidiaries**
Subsidiaries are entities, including unincorporated entities, 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. Subsidiaries are consolidated using the purchase method of accounting. Under the purchase method of accounting, the financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The results of subsidiary companies incorporated during the financial year are included in the Group from the dates of incorporation. Investments in subsidiaries are measured in the Bank's statement of financial position at cost less any impairment losses.

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

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

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

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

Investments in associates are measured in the Bank's statement of financial position at cost less any impairment losses. The cost of the investment includes transaction costs.

**Joint ventures**
Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Joint ventures are accounted for in the consolidated financial statements using the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity accounted joint ventures, after adjustments, if any, to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases.

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

Investments in joint ventures are stated in the Bank's statement of financial position at cost less impairment losses, unless the investment is classified as held for sale.

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

***(b) Foreign Currency Transactions***

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. The functional currency of the Group and the Bank is Ringgit Malaysia.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rates at that date.

Foreign currency differences arising on translation are recognised in the statement of comprehensive income.

***(c) Revenue***

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

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

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

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

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

- interest on financial assets and liabilities measured at amortised costs calculated on an effective interest basis
- interest on available-for-sale investment securities calculated on an effective interest basis
- fair value changes in qualifying derivatives, including hedge ineffectiveness, and related hedged items in fair value hedges of interest rate risk.

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

## 3 Significant Accounting Policies (Cont'd)

### *(e) Recognition of Fees and Commission, Net Trading Income and Other Operating 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;

- if the income is earned as services are provided, it is recognised as revenue as the services are provided; and

- Fee and commission income and expense that are integral to the effective interest/profit rate on a financial asset or liability are included in the measurement of the effective interest/profit rate. It is recognised as an adjustment to the effective interest/profit rate and recorded in 'interest/finance income' (see Note 3 d).

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

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

### *(f) Income tax expense*

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Group and the Bank intends to settle on a net basis and the legal right to offset exists.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to apply to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax liabilities are generally recognised for all taxable temporary differences. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 3 Significant Accounting Policies (Cont'd)

### *(g) Financial instruments*

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

The Group and the Bank initially recognise loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Group and the Bank commit to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group and the Bank become a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

***ii) Classification***

See accounting policies 3*j*, 3*k*, 3*l*.

***iii) Derecognition***

Financial assets are derecognised when the contractual right to receive cash flows from the assets has expired; or when the Group and the Bank have transferred their contractual right to receive the cash flows of the financial assets, and either:
– substantially all the risks and rewards of ownership have been transferred; or
– the Group and the Bank have neither retained nor transferred substantially all the risks and rewards, but have not retained control.

Financial liabilities are derecognised when the Group and the Bank's contractual obligations are discharged, cancelled, or expire.

***iv) Offsetting***

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under the FRSs.

***v) Amortised cost measurement***

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

***vi) Fair value measurement***

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

## 3 Significant Accounting Policies (Cont'd)

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

#### *vi) Fair value measurement (Cont'd)*

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Fair values of financial instruments may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data, where current prices or observable market data are not available.

Valuation techniques incorporate assumptions about factors that other market participants would use in their valuation, including interest rate yield curves, exchange rates, volatilities, and prepayment and default rates. If there are additional factors that are not incorporated within the valuation model but would be considered by market participants, further fair value adjustments are applied to model calculated fair values. These fair value adjustments include adjustments for bid-offer spread, model uncertainty, credit risk and model limitation. Where a financial instrument has a quoted price in an active market and it is part of a portfolio, the fair value of the portfolio is calculated as the product of the number of units and quoted price and no block discounts are made.

If the fair value of a financial asset measured at fair value becomes negative, the financial instrument is recorded as a financial liability until the fair value becomes positive, at which time the financial instrument is recorded as a financial asset.

The fair values of financial liabilities are measured using quoted market prices where available, or using valuation techniques. These fair values include market participants' assessments of the appropriate credit spread to apply to the Group and the Bank's liabilities. The amount of change during the period, and cumulatively, in the fair value of designated financial liabilities and loans and advances that is attributable to changes in their credit spread is determined as the amount of change in the fair value that is not attributable to changes in market conditions that give rise to market risk.

#### *vii) Identification of impairment*

At each reporting date the Group and the Bank assess whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

An asset is to be assessed as impaired when, and only when, there is objective evidence of impairment as a result of an event that occurred after the initial recognition of the asset (a "loss event") and that loss event has an adverse impact on the cash flows of the asset which can be reliably estimated.

The criteria used by the Group to help determine whether there is objective evidence of impairment of such an asset include:

- known cash flow difficulties experienced by the borrower;
- an overdue contractual payment of principal or interest;
- breach of loan covenants or conditions;
- the probability that the borrower will enter bankruptcy or other distressed financial reorganisation, based on conditions existing at the reporting date; and
- a significant downgrading in credit rating by an external credit rating agency - not in itself evidence of impairment, but to be considered in conjunction with other information

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

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

***vii) Identification of impairment (Cont'd)***

The Group takes a prudent approach, through its criteria for assessing whether objective evidence of impairment exists, to interpretation of the term 'objective evidence' and to quantifying impairment allowance requirements. However, it also allows circumstances in which, in the absence of other indicators of impairment, exposures designated as past due will not normally be regarded as impaired, including:

- individually assessed loans fewer than 90 days past due;
- loans fully secured by cash collateral;
- short-term trade facilities technically overdue, for instance through documentation delay, but where there is no concern over the creditworthiness of the customer/ counterparty; and
- residential mortgages in arrears by 90 days or more, where the value of collateral is sufficient to meet the repayment of the principal debt and all potential interest for at least, normally, one year.

***(h) 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 is readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

***(i) 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 statements of financial position.

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 statements of financial position.

***(j) Financial assets held-for-trading***

Financial assets are classified as held-for-trading if they have been acquired principally for the purpose of selling or repurchasing it in the near term or they form part of a portfolio of identified financial assets that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These financial assets are recognised on trade date, when the Group and the Bank enter into contractual arrangements with counterparties to purchase or sell the financial assets, and are normally derecognised when sold. Measurement is initially at fair value, with transaction costs taken to the statement of comprehensive income. Subsequently, the fair values are remeasured, and gains and losses therein, together with any related interest income/profit earned are recognised in the statement of comprehensive income in 'Net trading income/Income from Islamic Banking operations'

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

***(k) Financial investments***

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

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

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

Available-for-sale investments are non derivative financial assets that are not classified as held-for-trading or held-to-maturity investments; and are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income in 'Available-for-sale investments – fair value gains/(losses)' until the financial assets are either sold or become impaired. When available-for-sale financial assets are sold, cumulative gains or losses previously recognised in other comprehensive income are recognised in the statement of comprehensive income as 'Net gains/losses arising from the sale of financial investments available-for-sale'.

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.

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

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

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

Impairment losses for available-for-sale debt securities are recognised within 'Loan impairment charges and other credit risk provisions' in the statement of comprehensive income and impairment losses for available-for-sale equity securities are recognised within 'Impairment losses on available-for-sale financial investments' in the statement of comprehensive income.

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

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

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

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

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

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

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 individual impairment provision) 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 the statement of comprehensive income 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 "Financial investments available-for-sale" account in the balance sheet.

***(l) 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 or designated at fair value. Loans, advances and financing are recognised when cash is advanced to borrowers. They are derecognised when either the borrower repays its obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest/profit rate method, less any impairment losses.

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

The Group and Bank's allowance for impaired loans/financing are in conformity with FRS 139 and Bank Negara Malaysia's "Guidelines on Classification and Impairment Provisions for Loans/Financing" issued on 1 January 2010. Accounts are classified as impaired when principal or interest/profit or both are past due for more than ninety (90) days, or once there is objective evidence that the customer's account is impaired, whichever is sooner. Where repayments are scheduled on intervals of 3 months or longer, the loan/financing is classified as impaired as soon as a default occurs, unless it does not exhibit any weakness that would render it classified according to the Group and the Bank's credit risk grading framework.

Individual impairment provisions are made for impaired debts and financing which have been individually reviewed and specifically identified as impaired.

Collective impairment provisions based on a percentage (1.5%) of the total outstanding loans/financing portfolio net of individual impairment provisions is also maintained 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.

## 3 Significant Accounting Policies (Cont'd)

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

Impaired loans/financing are measured at their estimated recoverable amount based on the discounted cash flow methodology. Individual impairment allowances are provided if the recoverable amount (present value of estimated future cash flows discounted at original effective interest/profit rate) is lower than the net book value of the loans/financing (outstanding amount of loans, advances and financing, net of individual impairment 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 may be reversed to the extent it is now excessive by reducing the loan impairment allowance account. The amount of any reversal is recognised in the statement of comprehensive income.

Prior to 1 January 2010, the Group and the Bank's accounting policy relating to the classification of impaired loans/financing and the assessment of individual impairment allowances (previously referred to as specific allowances) on impaired loans/financing (previously referred to as non-performing loans/financing) was already largely in line with the requirement of FRS 139. The main change upon full adoption of FRS 139 and BNM's revised "Guidelines on Classification and Impairment Provisions for Loans/Financing" from 1 January 2010 onwards, is that BNM's previous requirement for additional individual impairment allowances for impaired loans/financing of more than 5 years and 7 years is no longer applicable under FRS 139 principles.

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### *(n) Property and Equipment*

**i. Property**

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

Land and buildings are revalued annually to ensure that the net carrying amount does not differ materially from the fair value. Surpluses arising on revaluation are credited firstly to the statement of comprehensive income to the extent of any deficits arising on revaluation previously charged to the statement of comprehensive income 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 included in the "Property revaluation reserve" in respect of the same premises, and are thereafter recognised in the statement of comprehensive income.

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

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

| | |
|---|---|
| Leasehold land | The shorter of 50 years and the lease term |
| 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 |

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

## 3 Significant Accounting Policies (Cont'd)

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

**ii. Equipment**

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

| | |
|---|---|
| Office equipment, fixtures and fittings | 5 to 10 years |
| Computer equipment | 3 to 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.

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

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

### *(o) Operating leases*

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

In the previous years, a leasehold land that normally had an indefinite economic life and title was not expected to pass to the lessee by the end of the lease term was treated as an operating lease. The payment made on entering into or acquiring a leasehold land that was accounted for as an operating lease represented prepaid lease payments.

The Group and the Bank have adopted the amendment made to FRS 117, *Leases* in 2010 in relation to the classification of lease of land. Leasehold land which in substance is a finance lease has been reclassified from prepaid lease payments to property and equipment and measured as such retrospectively. (See Note 2e(iv) for further details)

### *(p) Intangible Assets*

Intangible assets represent computer software and are stated at cost less amortisation and any 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 estimated useful lives of 3 to 5 years. Intangible assets are subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

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

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

## 3 Significant Accounting Policies (Cont'd)

### *(r) 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.

### *(s) 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.

### *(t) Provisions*

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

### *(u) Financial guarantees*

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

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

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values of exchange traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.

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

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

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

## 3 Significant Accounting Policies (Cont'd)

### *(v) Derivatives and Hedge Accounting (Cont'd)*

**Hedge accounting**

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

***i) Fair value hedge***

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

***ii) Cash flow hedge***

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

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

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

### *(w) Profit Equalisation Reserves ('PER')*

PER refers to the amount appropriated out of the total Islamic Banking gross income in order to maintain an acceptable level of return to 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.

### *(x) 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 statement of comprehensive income as incurred.

## 3 Significant Accounting Policies (Cont'd)

### *(y) Share based payments*

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

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

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

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

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

### *(z) Earnings per share*

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

## 4 Financial risk management

### a) Introduction and overview

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

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

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

**Risk management framework**

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 in 2009 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.

### b) Credit risk management

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its payment obligations under a contract. It arises principally from direct lending, trade finance and holdings of investment debt securities. 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 the Executive Committee, Risk Management Committee, Risk Committee and the Board, covering:

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

## 4 Financial risk management (Cont'd)

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

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 and Assurance 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 and local regulatory requirements. Internal Audit will discuss with management, risk ratings they consider to be inappropriate, and their subsequent recommendations for revised grades must then be assigned to the facilities concerned.

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

**Impairment assessment**
Individually impaired loans and securities are loans and advances and investment debt securities for which the Group and the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan/investment security. These loans are graded CRR 9-10 in the Group's internal credit risk grading system. (refer Note 4 b) i for further information on the Group's internal credit risk grading system).

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

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

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

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

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

## 4 Financial risk management (Cont'd)

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

**Write-off of loans and advances (Cont'd)**

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

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

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

The estimated fair value of collateral and other security enhancements held against impaired loans, advances and financing as at 31 December 2010 amounted to RM509.2 million for the Group and RM497.4 million for the Bank.

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

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

**Financial assets held-for-trading**

The Group and Bank hold financial assets held-for-trading of RM4.895 billion and RM4.747 billion respectively. An analysis of the credit quality of the maximum credit exposure, based on the rating agency Standard & Poor's, is as disclosed in Note 8 to the financial statements.

## 4 Financial risk management (Cont'd)

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

**Derivatives**

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

**Settlement risk**

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

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

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

**i) Exposure to credit risk^**

| Group | 2010 Loans, advances and financing to customers RM'000 | Loans, advances and financing to banks* RM'000 | Investment Securities** RM'000 |
|---|---|---|---|
| Carrying amount | **34,076,044** | **18,614,448** | **3,376,302** |
| **Assets at amortised cost** | | | |
| Individually impaired: | | | |
| Gross amount | **692,481** | **-** | **-** |
| Allowance for impairment | **(379,358)** | **-** | **-** |
| Carrying amount | **313,123** | **-** | **-** |
| Collective allowance for impairment | **(519,055)** | **-** | **-** |
| Past due but not impaired: | | | |
| Carrying amount | **1,959,748** | **-** | **-** |
| *Past due comprises:* | | | |
| *up to 29 days* | **1,473,298** | **-** | **-** |
| *30 - 59 days* | **307,385** | **-** | **-** |
| *60 - 89 days* | **145,329** | **-** | **-** |
| *90 - 179 days* | **26,813** | **-** | **-** |
| *180 days and over* | **6,923** | **-** | **-** |
| | **1,959,748** | **-** | **-** |
| Neither past due nor impaired: | | | |
| Strong | **16,639,246** | **18,471,268** | **-** |
| Medium-good | **8,141,721** | **143,180** | **-** |
| Medium-satisfactory | **6,282,418** | **-** | **-** |
| Substandard | **1,258,843** | **-** | **-** |
| Carrying amount | **32,322,228** | **18,614,448** | **-** |
| *of which includes accounts with renegotiated terms* | ***311,219*** | - | - |
| Carrying amount-amortised cost | **34,076,044** | **18,614,448** | **-** |
| **Available-for-sale (AFS)** | | | |
| Neither past due nor impaired: | | | |
| Strong | **-** | **-** | **3,113,315** |
| Medium-satisfactory | **-** | **-** | **262,987** |
| Carrying amount | **-** | **-** | **3,376,302** |
| *of which includes accounts with renegotiated terms* | - | - | - |
| Carrying amount-fair value | **-** | **-** | **3,376,302** |

In addition to the above, the Group had entered into lending commitments of RM17.997 billion. The Group had also issued financial guarantee contracts for which the maximum amount payable by the Group, assuming all guarantees are called on, is RM1.181 billion.

^ Disclosure of comparative information is not required in the first year of application of FRS 7, Financial Instruments: Disclosure

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

** Excludes equity securities

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

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

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

| **Bank** | **2010** Loans and advances to customers RM'000 | Loans and advances to banks* RM'000 | Investment Securities** RM'000 |
|---|---|---|---|
| Carrying amount | 29,439,768 | 18,598,538 | 3,045,637 |
| **Assets at amortised cost** | | | |
| Individually impaired: | | | |
| Gross amount | 621,671 | - | - |
| Allowance for impairment | (337,500) | - | - |
| Carrying amount | 284,171 | - | - |
| Collective allowance for impairment | (448,400) | | |
| Past due but not impaired: | | | |
| Carrying amount | 1,727,210 | - | - |
| *Past due comprises:* | | | |
| *up to 29 days* | 1,318,462 | - | - |
| *30 - 59 days* | 264,931 | - | - |
| *60 - 89 days* | 131,920 | - | - |
| *90 - 179 days* | 5,054 | - | - |
| *180 days and over* | 6,843 | - | - |
| | 1,727,210 | - | - |
| Neither past due nor impaired: | | | |
| Strong | 14,610,491 | 18,485,358 | - |
| Medium-good | 6,790,223 | 113,180 | - |
| Medium-satisfactory | 5,355,168 | - | - |
| Substandard | 1,120,905 | - | - |
| Carrying amount | 27,876,787 | 18,598,538 | - |
| *of which includes accounts with renegotiated terms* | *298,566* | - | - |
| Carrying amount-amortised cost | 29,439,768 | 18,598,538 | - |
| **Available-for-sale (AFS)** | | | |
| Neither past due nor impaired: | | | |
| Strong | - | - | 2,787,153 |
| Medium-satisfactory | - | - | 258,484 |
| Carrying amount | - | - | 3,045,637 |
| *of which includes accounts with renegotiated terms* | - | - | - |
| Carrying amount-fair value | - | - | 3,045,637 |

In addition to the above, the Bank had entered into lending commitments of RM16.568 billion. The Bank had also issued financial guarantee contracts for which the maximum amount payable by the Bank , assuming all guarantees are called on, is RM1.109 billion.

^ Disclosure of comparative information is not required in the first year of application of FRS 7, Financial Instruments: Disclosure

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

** Excludes equity securities

## 4 Financial risk management (Cont'd)

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

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

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

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

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

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

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

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

| | Group | | Bank | |
|---|---|---|---|---|
| **2010** | **Loans, advances and financing to banks* RM'000** | **Investment Securities** RM'000** | **Loans and advances to banks* RM'000** | **Investment Securities** RM'000** |
| Carrying amount | **18,614,448** | **3,376,302** | **18,598,538** | **3,045,637** |
| **By sector** | | | | |
| Transport, storage and communication | **-** | **5,028** | **-** | **5,028** |
| Finance, insurance and business services | **18,614,448** | **1,674,377** | **18,598,538** | **1,639,872** |
| Others | **-** | **1,696,897** | **-** | **1,400,737** |
| | **18,614,448** | **3,376,302** | **18,598,538** | **3,045,637** |
| **By geographical location** | | | | |
| Within Malaysia | **17,188,359** | **3,376,302** | **17,172,449** | **3,045,637** |
| Outside Malaysia | **1,426,089** | **-** | **1,426,089** | **-** |
| | **18,614,448** | **3,376,302** | **18,598,538** | **3,045,637** |

^ Disclosure of comparative information is not required in the first year of application of FRS 7, Financial Instruments: Disclosure

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

** Excludes equity securities

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

## 4 Financial risk management (Cont'd)

### c) Liquidity and funding risk management

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

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

The management of liquidity and funding is primarily carried out in accordance with the Bank Negara Malaysia New Liquidity Framework; and practices and limits set by ALCO and regional Head Office. 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 and the Bank's liquidity and funding management process includes:

- projecting cash flows and considering the level of liquid assets necessary in relation thereto;
- monitoring balance sheet advances to core funding ratios against internal and regulatory requirements
- maintaining a diverse range of funding sources with adequate back-up facilities;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; 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.
- Stress testing and scenario analysis are important tools in HSBC's liquidity management framework. This will also include an assessment of asset liquidity under various stress scenerios.
- Manage the maturities and diversify secured and unsecured funding liabilities across markets, products and counterparties.
- Maintain liabilities of appropriate term relative to asset base.

## 4 Financial risk management (Cont'd)

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

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

| RM'000 | On demand | Due within 3 months | Due between 3 months to 12 months | Due between 1 and 5 years | Due after 5 years |
|---|---|---|---|---|---|
| **As at 31 Dec 2010** | | | | | |
| Deposits from customers | 18,597,957 | 20,639,274 | 7,202,369 | 2,702,478 | 884,080 |
| Deposits and placements of banks and other financial institutions | - | 6,673,634 | 126,387 | 53,027 | |
| Bills and acceptances payable | - | 429,229 | - | - | - |
| Recourse obligations on loans sold to Cagamas | - | 139,099 | 243,427 | - | - |
| Subordinated bonds | | 9,750 | 29,250 | 156,000 | 1,390,000 |
| | **18,597,957** | **27,890,986** | **7,601,433** | **2,911,505** | **2,274,080** |
| | | | | | |
| Loan and other credit-related commitments | 14,494 | 1,227 | 1,842 | 435 | - |
| Financial guarantees and similar contracts | 1,180,827 | - | - | - | - |
| | **19,793,278** | **27,892,213** | **7,603,275** | **2,911,940** | **2,274,080** |

**ii) Cash flows payable by the Bank under financial liabilities by remaining contractual maturities**

| RM'000 | On demand | Due within 3 months | Due between 3 months to 12 months | Due between 1 and 5 years | Due after 5 years |
|---|---|---|---|---|---|
| **As at 31 Dec 2010** | | | | | |
| Deposits from customers | 17,428,629 | 18,515,403 | 6,749,803 | 2,522,615 | 884,080 |
| Deposits and placements of banks and other financial institutions | - | 6,164,034 | 97,502 | - | - |
| Bills and acceptances payable | - | 423,698 | - | - | - |
| Recourse obligations on loans sold to Cagamas | - | 139,099 | 243,427 | - | - |
| Subordinated bonds | | 9,750 | 29,250 | 156,000 | 1,390,000 |
| | **17,428,629** | **25,251,984** | **7,119,982** | **2,678,615** | **2,274,080** |
| | | | | | |
| Loan and other credit-related commitments | 13,255 | 1,170 | 1,793 | 350 | - |
| Financial guarantees and similar contracts | 1,108,989 | - | - | - | - |
| | **18,550,873** | **2,523,154** | **7,121,775** | **2,678,965** | **2,274,080** |

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

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

## 4 Financial risk management (Cont'd)

### 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, proprietary position taking and other marked-to-market positions so designated. Non-trading portfolios primarily arise from the interest/profit rate management of the Group's retail and commercial banking assets and liabilities, and financial investments available-for-sale.

The management of market risk is principally undertaken using risk limit mandates approved by HSBC's Group Global Market Risk Management (GMO 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 GMO TMR. Positions are monitored daily and excesses against the prescribed limits are reported immediately to local senior management and GMO TMR. The nature of the hedging and risk mitigation strategies corresponds to the market instruments available. These strategies range from the use of traditional market instruments, such as interest rate swaps / profit rate swaps, to more sophisticated hedging strategies to address a combination of risk factors arising at portfolio level.

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

*Value at risk ('VAR')*
VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VAR models used by the Group are based predominantly on historical simulation. These models derive plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates such as interest rates and foreign exchange rates. The models also incorporate the effect of option features on the underlying exposures. The historical simulation models used by the Group incorporate the following features:

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

## 4 Financial risk management (Cont'd)

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

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

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

| **Bank (RM'000)** | **At 31 Dec 2010** | **Average** | **Maximum** | **Minimum** |
|---|---|---|---|---|
| Foreign currency risk | 575 | 376 | 2,644 | 2 |
| Interest rate risk | 2,064 | 1,936 | 3,279 | 984 |
| Credit spread risk | 633 | 497 | 1,977 | 123 |
| Overall | 2,314 | 1,914 | 3,703 | 712 |
| | | | | |
| **HBMS Amanah Malaysia Berhad (RM'000)** | **At 31 Dec 2010** | **Average** | **Maximum** | **Minimum** |
| Foreign currency risk | 12 | 19 | 60 | 2 |
| Interest rate risk | 95 | 161 | 371 | 61 |
| Credit spread risk | 48 | 20 | 368 | 0 |
| Overall | 107 | 164 | 443 | 67 |

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

The Group and the Bank recognise these limitations by augmenting its VAR limits with other position and sensitivity limit structures. Stress tests are produced on a monthly basis based on the HSBC Group's stress-testing parameters, and on a 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 Group and the Bank's profitability, capital adequacy and liquidity. The stress-testing provides the Risk Management Committee with an assessment of the financial impact of identified extreme events on the market risk exposures of the Group and the Bank.

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

## 4 Financial risk management (Cont'd)

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

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

**Exposure to interest/profit rate risk – non trading portfolios**

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

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

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

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

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

## 4 Financial risk management (Cont'd)

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

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

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

| **Change in projected net interest/finance income in next 12 months arising from a shift in interest/profit rates of:** | **Group 31 Dec 2010 RM'000** |
|---|---:|
| +100 basis points parallel increase | **205,231** |
| -100 basis points parallel increase | **(190,541)** |
| | |
| +25 basis points at the beginning of each quarter | **135,263** |
| +25 basis points at the beginning of each quarter | **(131,188)** |

| **Change in projected net interest income in next 12 months arising from a shift in interest rates of:** | **Bank 31 Dec 2010 RM'000** |
|---|---:|
| +100 basis points parallel increase | **189,574** |
| -100 basis points parallel increase | **(174,637)** |
| | |
| +25 basis points at the beginning of each quarter | **124,113** |
| +25 basis points at the beginning of each quarter | **(120,013)** |

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

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

| | **Group 31 Dec 2010 RM'000** |
|---|---:|
| +100 basis points parallel increase in all yield curves | **(53,600)** |
| -100 basis points parallel increase in all yield curves | **53,600** |

| | **Bank 31 Dec 2010 RM'000** |
|---|---:|
| +100 basis points parallel increase in all yield curves | **(48,515)** |
| -100 basis points parallel increase in all yield curves | **48,515** |

**Foreign exchange risk**

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

**Specific issuer risk**

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

**Equity risk**

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

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

**e) 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 and the Bank manage 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 ensures that the Group and the Bank stay in line with best practice and takes account of lessons learned from publicised operational failures within the financial services industry.

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

- operational risk management responsibility is assigned at senior management level within the business operation;

- information systems are used to record the identification and assessment of operational risks and generate appropriate, regular management reporting;

- operational risks are identified by assessments covering operational risks facing each business and risk inherent in processes, activities and products. Risk assessment incorporates a regular review of identified risks to monitor significant changes;

- operational risk loss data is collected and reported to senior management. Aggregate operational risk losses are recorded and details of incidents above a materiality threshold are reported to the Operational Risk and Internal Control 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 and the Bank maintain and test contingency facilities to support operations in the event of disasters. Additional reviews and tests are conducted in the event that the Group and the Bank are affected by a business disruption event to incorporate lessons learned in the operational recovery from those circumstances.

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**f) Capital management**

The Group and the Bank's lead regulator, Bank Negara Malaysia ("BNM") sets and monitors capital requirements for the Group and the Bank as a whole. With effect from 2008, the Group is required to comply with the provisions of the Basel II framework in respect of regulatory capital. The Group and the Bank adopt the Standardised approach for Credit, Operational and Market Risk in its trading portfolios. Please refer to Note 37 to the financial statements for the Group and the Bank's regulatory capital position under Basel II as at the reporting date.

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

- Tier 1 capital, which includes ordinary share capital, share premium, capital redemption reserves, retained earnings, statutory reserves and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated bonds, collective impairment allowances (excluding individual impairment allowances attributable to loans classified as impaired) and the element of the fair value reserve relating to revaluation of property.

## 5 Use of estimates and judgements

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

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

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

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

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

**ii) Valuation of financial instruments**

The Group and the Bank's accounting policy for determining the fair value of financial instruments is described in Note 3g (vi) to the financial statements. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of the variables in the valuation are observable market data, and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest/profit rate yield curves, exchange rates, volatilities, and prepayment and default rates. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

The main assumptions and estimates which management considers when applying a model with valuation techniques are:

- the likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument. Management bases the determination of this rate on its assessment of what a market participant would regard as the appropriate spread of the rate for the instrument over the appropriate risk-free rate; and
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

When applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments will be based on some market observable inputs even where the unobservable inputs are significant.

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

### ii) Valuation of financial instruments (Cont'd)

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument
- Level 2 : Valuation techniques based on observable inputs, either directly, (ie as prices) or indirectly (derived from prices). This category includes instruments valued using: quoted prices for identical or similar instruments in markets that are considered less active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 : Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The tables below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized:-

| | 2010 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Group (RM'000)** | | | | |
| Financial Assets Held-for-Trading (Note 8) | 1,651,503 | 3,243,557 | - | 4,895,060 |
| Financial Investments Available-for-Sale* (Note 9) | 2,044,563 | 1,331,738 | - | 3,376,301 |
| Derivative financial assets (Note 12) | 2,248 | 1,062,901 | 68,560 | 1,133,709 |
| | **3,698,314** | **5,638,196** | **68,560** | **9,405,070** |
| Derivative financial liabilities (Note 21) | 2,198 | 912,016 | 55,909 | 970,123 |
| | **2,198** | **912,016** | **55,909** | **970,123** |
| **Bank (RM'000)** | | | | |
| Financial Assets Held-for-Trading (Note 8) | 1,567,857 | 3,179,197 | - | 4,747,054 |
| Financial Investments Available-for-Sale* (Note 9) | 1,718,402 | 1,327,237 | - | 3,045,639 |
| Derivative financial assets (Note 12) | 2,248 | 1,056,800 | 63,506 | 1,122,554 |
| | **3,288,507** | **5,563,234** | **63,506** | **8,915,247** |
| Derivative financial liabilities (Note 21) | 2,573 | 905,540 | 50,855 | 958,968 |
| | **2,573** | **905,540** | **50,855** | **958,968** |

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

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

### ii) Valuation of financial instruments (Cont'd)

The following tables show the reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

| **2010** | **Derivative financial assets** | **Derivative financial liabilities** |
|---|---|---|
| **Group (RM'000)** | | |
| Balance at 1 January | 102,747 | 92,584 |
| Total gains or losses: | | |
| in profit or loss | 9,675 | (1,815) |
| Transfer out of Level 3 | (43,862) | (34,860) |
| Balance at 31 December | 68,560 | 55,909 |

| **2010** | **Derivative financial assets** | **Derivative financial liabilities** |
|---|---|---|
| **Bank (RM'000)** | | |
| Balance at 1 January | 95,137 | 84,974 |
| Total gains or losses: | | |
| in profit or loss | 11,125 | (365) |
| Transfer out of Level 3 | (42,756) | (33,754) |
| Balance at 31 December | 63,506 | 50,855 |

Total gains or losses included in profit or loss for the financial year in the above tables are presented in the statement of comprehensive income as follows:-

| **2010**<br>**Group (RM'000)** | **Derivative financial assets** | **Derivative financial liabilities** |
|---|---|---|
| Total gains or losses included in profit or loss for the year ended: | | |
| -Net trading income | (14,343) | (16,413) |
| Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the reporting year | | |
| -Net trading income | 24,018 | 14,598 |

| **2010**<br>**Bank (RM'000)** | **Derivative financial assets** | **Derivative financial liabilities** |
|---|---|---|
| Total gains or losses included in profit or loss for the year ended: | | |
| -Net trading income | (11,780) | (13,850) |
| Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the reporting year | | |
| -Net trading income | 22,905 | 13,485 |

## 6 Cash and Short Term Funds

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Cash and balances with banks and other financial institutions | **1,998,438** | 434,905 | **1,970,221** | 423,859 |
| Money at call and deposit placements maturing within one month | **9,817,166** | 11,274,653 | **8,688,639** | 11,056,624 |
| | **11,815,604** | 11,709,558 | **10,658,860** | 11,480,483 |

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

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Licensed banks | **-** | - | **1,140,834** | 943,057 |
| Bank Negara Malaysia | **200,000** | 100,000 | **200,000** | 100,000 |
| Other financial institutions | **130,981** | 42,812 | **130,981** | 42,812 |
| | **330,981** | 142,812 | **1,471,815** | 1,085,869 |

## 8 Financial Assets Held-for-Trading

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| **At fair value** | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Money market instruments: | | | | |
| Malaysian Government treasury bills | **667,045** | 57,422 | **602,685** | 18,110 |
| Bank Negara Malaysia bills and notes | **1,918,290** | 315,670 | **1,918,290** | 315,670 |
| Bank Negara Malaysia Islamic bills | **587,127** | 149,490 | **587,127** | 149,490 |
| Malaysian Government securities | **1,178,902** | 458,592 | **1,178,902** | 458,592 |
| Malaysian Government Islamic bonds | **131,110** | 170,838 | **72,558** | 82,764 |
| Cagamas bonds and notes | **3,332** | 4,627 | **3,332** | 4,627 |
| | **4,485,806** | 1,156,639 | **4,362,894** | 1,029,253 |
| Unquoted securities: | | | | |
| Private debt securities (including commercial paper) | **409,254** | 126,178 | **384,160** | 126,178 |
| | **4,895,060** | 1,282,817 | **4,747,054** | 1,155,431 |

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

| **2010** | Group | Bank |
|---|---|---|
| Money market instruments: | **RM'000** | **RM'000** |
| Malaysian Government treasury bills | | |
| *AA+ to AA-* | **667,045** | **602,685** |
| Bank Negara Malaysia bills and notes | | |
| *AA+ to AA-* | **1,918,290** | **1,918,290** |
| Bank Negara Malaysia Islamic bills | | |
| *AA+ to AA-* | **587,127** | **587,127** |
| Malaysian Government securities | | |
| *AA+ to AA-* | **1,178,902** | **1,178,902** |
| Malaysian Government Islamic bonds | | |
| *AA+ to AA-* | **131,110** | **72,558** |
| Cagamas bonds and notes | | |
| *Unrated* | **3,332** | **3,332** |
| Unquoted securities: | | |
| Private debt securities (including commercial paper) | | |
| AA+ to AA- | **101,348** | **101,348** |
| A+ to A- | **5,113** | **5,113** |
| Unrated | **302,793** | **277,699** |
| | **4,895,060** | **4,747,054** |

* Disclosure of comparative information is not required in the first year of application of FRS 7, Financial Instruments: Disclosure.

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

## 9 Financial Investments Available-for-Sale

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| **At fair value** | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Money market instruments: | | | | |
| Malaysian Government treasury bills | **98,704** | 174,424 | **98,704** | 84,633 |
| Malaysian Government securities | **933,468** | 2,338,447 | **933,468** | 2,338,447 |
| Malaysian Government Islamic bonds | **664,725** | 451,077 | **368,564** | 344,736 |
| Khazanah bonds | **-** | 47,946 | **-** | - |
| Cagamas bonds and notes | **65,844** | 35,770 | **65,844** | 35,770 |
| Negotiable instruments of deposit | **375,029** | 875,060 | **345,027** | 805,055 |
| Bankers' acceptance and Islamic accepted bills | **1,233,033** | 782,678 | **1,228,531** | 782,678 |
| | **3,370,803** | 4,705,402 | **3,040,138** | 4,391,319 |
| Quoted securities: | | | | |
| Shares | **10,696** | 19,063 | **10,696** | 19,063 |
| Loan stock* | **-** | 5,930 | **-** | 5,930 |
| | **10,696** | 24,993 | **10,696** | 24,993 |
| Unquoted securities: | | | | |
| Shares* | **16,907** | 16,908 | **16,907** | 16,908 |
| Private and Islamic debt securities | **5,499** | 117,761 | **5,499** | 47,624 |
| | **22,406** | 134,669 | **22,406** | 64,532 |
| Impairment loss: Quoted securities: | | | | |
| Shares | **(3,815)** | (3,242) | **(3,815)** | (3,242) |
| Loan stock | **-** | (5,930) | **-** | (5,930) |
| | **(3,815)** | (9,172) | **(3,815)** | (9,172) |
| | **3,400,090** | 4,855,892 | **3,069,425** | 4,471,672 |

*Stated at cost due to the lack of quoted prices in an active market or / and the fair values of the investments cannot be reliably measured.

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

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Maturing within one year | **2,068,706** | 2,601,805 | **2,034,202** | 2,394,063 |
| One year to three years | **607,366** | 1,582,200 | **311,205** | 1,475,859 |
| Three years to five years | **487,064** | 374,332 | **487,064** | 374,332 |
| Over five years | **207,667** | 147,065 | **207,667** | 147,065 |
| | **3,370,803** | 4,705,402 | **3,040,138** | 4,391,319 |

## 10 Loans, Advances and Financing

### (i) By type

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| **At amortised cost** | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Overdrafts | **1,196,751** | 1,343,183 | **1,182,249** | 1,338,246 |
| Term loans/ financing | | | | |
| Housing loans/ financing | **11,394,601** | 9,591,757 | **10,934,428** | 9,507,684 |
| Syndicated term loans/ financing | **83,345** | 135,712 | **83,345** | 135,712 |
| Factoring receivables | **68,903** | - | **68,903** | - |
| Hire purchase receivables | **177,462** | 224,063 | **1,081** | 1,629 |
| Lease receivables | **2,807** | 5,836 | **2,620** | 5,560 |
| Other term loans/ financing | **9,416,156** | 8,882,984 | **6,281,513** | 6,582,449 |
| Bills receivable | **2,691,106** | 1,306,227 | **2,691,106** | 1,306,227 |
| Trust receipts | **984,483** | 500,035 | **983,779** | 500,035 |
| Claims on customers under acceptance credits | **3,125,331** | 2,808,613 | **2,367,254** | 2,248,860 |
| Staff loans/ financing | **398,694** | 380,338 | **389,362** | 377,443 |
| Credit/ charge cards | **2,838,223** | 2,724,521 | **2,576,706** | 2,556,092 |
| Revolving credit | **2,654,619** | 1,633,995 | **2,654,619** | 1,633,995 |
| Other loans/ financing | **8,703** | 7,993 | **8,703** | 7,993 |
| Less: Unearned income | **(66,727)** | (90,379) | **-** | - |
| Gross loans, advances and financing | **34,974,457** | 29,454,878 | **30,225,668** | 26,201,925 |
| Less: Allowances for impaired loans, advances and financing | | | | |
| - Collective allowances for impairment | **(519,055)** | - | **(448,400)** | - |
| - Individual allowances for impairment | **(379,358)** | - | **(337,500)** | - |
| - General allowances | **-** | (440,297) | **-** | (387,700) |
| - Specific allowances | **-** | (390,789) | **-** | (355,406) |
| Total net loans, advances and financing | **34,076,044** | 28,623,792 | **29,439,768** | 25,458,819 |

### (ii) By type of customer

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Domestic banking institutions | **-** | 51,859 | **-** | - |
| Domestic non-bank financial institutions | | | | |
| Stockbroking companies | **152,941** | 152,533 | **152,941** | 152,533 |
| Others | **355** | 332 | **277** | 332 |
| Domestic business enterprises | | | | |
| Small medium enterprises | **5,946,355** | 4,730,388 | **5,003,898** | 3,975,954 |
| Others | **9,531,400** | 8,051,888 | **7,969,106** | 6,961,158 |
| Government and statutory bodies | **25,443** | - | **-** | - |
| Individuals | **17,187,695** | 15,141,707 | **15,218,354** | 13,868,492 |
| Other domestic entities | **10,253** | 10,269 | **6,639** | 6,034 |
| Foreign entities | **2,120,015** | 1,315,902 | **1,874,453** | 1,237,422 |
| | **34,974,457** | 29,454,878 | **30,225,668** | 26,201,925 |

### (iii) By residual contractual maturity

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Maturity within one year | **17,682,717** | 12,254,415 | **15,199,183** | 10,637,402 |
| More than one year to three years | **1,837,382** | 2,047,274 | **1,198,346** | 1,432,530 |
| More than three years to five years | **1,965,029** | 2,307,579 | **1,029,074** | 1,469,232 |
| More than five years | **13,489,329** | 12,845,610 | **12,799,065** | 12,662,761 |
| | **34,974,457** | 29,454,878 | **30,225,668** | 26,201,925 |

## 10 Loans, Advances and Financing (Cont'd)

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

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Fixed rate | | | | |
| Housing loans/ financing | **218,546** | 242,662 | **197,028** | 210,380 |
| Hire purchase receivables | **162,816** | 203,166 | **1,081** | 1,629 |
| Other fixed rate loans/ financing | **5,241,626** | 4,812,852 | **2,524,123** | 2,405,735 |
| Variable rate | | | | |
| BLR plus | **22,720,874** | 19,439,386 | **22,272,111** | 19,394,093 |
| Cost-plus | **2,654,619** | 1,633,996 | **2,654,619** | 1,633,996 |
| Other variable rates | **3,975,976** | 3,122,816 | **2,576,706** | 2,556,092 |
| | **34,974,457** | 29,454,878 | **30,225,668** | 26,201,925 |

### (v) By sector

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Agricultural, hunting, forestry and fishing | **1,091,735** | 845,718 | **993,947** | 749,961 |
| Mining and quarrying | **374,731** | 344,177 | **236,627** | 328,673 |
| Manufacturing | **7,121,615** | 5,832,326 | **6,030,757** | 5,043,494 |
| Electricity, gas and water | **193,672** | 55,183 | **181,399** | 47,681 |
| Construction | **852,605** | 764,321 | **771,815** | 709,835 |
| Real estate | **1,257,425** | 1,063,619 | **933,687** | 820,427 |
| Wholesale & retail trade and restaurants & hotels | **2,050,233** | 1,954,204 | **1,819,014** | 1,676,138 |
| Transport, storage and communication | **446,622** | 368,837 | **213,563** | 228,077 |
| Finance, insurance and business services | **1,454,107** | 1,295,134 | **1,220,693** | 1,057,541 |
| Household-retail | **18,230,265** | 15,967,891 | **16,229,546** | 14,684,813 |
| Others | **1,901,447** | 963,468 | **1,594,620** | 855,285 |
| | **34,974,457** | 29,454,878 | **30,225,668** | 26,201,925 |

### (vi) By purpose

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Purchase of landed property: | | | | |
| -Residential | **11,771,923** | 9,975,127 | **11,316,312** | 9,897,146 |
| -Non residential | **1,399,753** | 1,005,847 | **1,374,284** | 998,510 |
| Purchase of securities | **31,626** | 46,303 | **30,607** | 44,947 |
| Purchase of transport vehicles | **46,757** | 50,517 | **45,293** | 50,423 |
| Purchase of fixed assets excluding land & building | **76,779** | 235,009 | **-** | - |
| Consumption credit | **5,895,473** | 5,578,063 | **4,353,929** | 4,376,167 |
| Construction | **852,605** | 764,321 | **771,815** | 709,835 |
| Working capital | **13,779,292** | 11,324,636 | **11,456,267** | 9,722,493 |
| Other purpose | **1,120,249** | 475,055 | **877,161** | 402,404 |
| | **34,974,457** | 29,454,878 | **30,225,668** | 26,201,925 |

## 10 Loans, Advances and Financing (Cont'd)

### (vii) By geographical distribution

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Northern region | **5,627,466** | 4,275,120 | **4,833,290** | 3,953,177 |
| Southern region | **5,238,476** | 4,162,901 | **4,596,318** | 3,760,714 |
| Central region | **19,983,182** | 17,292,534 | **17,086,891** | 15,131,844 |
| Eastern region | **4,125,333** | 3,724,323 | **3,709,168** | 3,356,190 |
| | **34,974,457** | 29,454,878 | **30,225,667** | 26,201,925 |

The Northern region consists of the states of Perlis, Kedah, Penang, Perak, Kelantan and Terengganu.
The Southern region consists of the states of Johor, Malacca and Pahang.
The Central region consists of the states of Selangor, Negeri Sembilan and the Federal Territory of Kuala Lumpur .
The Eastern region consists of the states of Sabah, Sarawak and the Federal Territory of Labuan.

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

## 11 Impaired Loans, Advances and Financing

### (i) Movements in impaired loans, advances and financing

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| At beginning of year | **667,236** | 485,804 | **611,783** | 457,328 |
| Classified as impaired during the year | **623,462** | 711,813 | **527,129** | 632,418 |
| Reclassified as performing | **(158,638)** | (108,088) | **(157,182)** | (107,833) |
| Amount recovered | **(194,622)** | (181,736) | **(175,838)** | (171,012) |
| Amount written off | **(263,127)** | (270,804) | **(196,877)** | (221,716) |
| Other movements | **18,170** | 30,247 | **12,656** | 22,598 |
| At end of year | **692,481** | 667,236 | **621,671** | 611,783 |
| Individual allowance for impairment / (2009: Specific allowance) | **(379,358)** | (390,789) | **(337,500)** | (355,406) |
| Net impaired loans, advances and financing | **313,123** | 276,447 | **284,171** | 256,377 |

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

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| **Collective allowance for impairment** | **2010** | 2009 | **2010** | 2009 |
| **(2009: General allowance)** | **RM'000** | RM'000 | **RM'000** | RM'000 |
| At beginning of year | **440,297** | 462,597 | **387,700** | 410,000 |
| Made during the year | **90,588** | 12,400 | **71,600** | 12,400 |
| Amount written back | **(11,830)** | (34,700) | **(10,900)** | (34,700) |
| At end of year | **519,055** | 440,297 | **448,400** | 387,700 |

With the adoption of FRS 139's transitional provision, the Group and the Bank have reversed the 31 December 2009 general allowance balances and reinstated them as collective impairment allowances on 1 January 2010 as both general allowance and collective impairment allowance are based on 1.5% of customer advances net of impairment charge. Prior to 1 Jan 2010, The Group and the Bank's classification of impaired loans, advances and financing was already in line with FRS 139 requirement and its specific allowance was already computed on the net present value of future expected cash flows.

| | | | | |
|---|---|---|---|---|
| **Individual allowance for impairment** | | | | |
| **(2009: Specific allowance)** | | | | |
| At beginning of year, as previously stated | **390,789** | 277,100 | **355,406** | 255,961 |
| -effect of adopting FRS 139 | **(12,379)** | - | **(12,336)** | - |
| At beginning of year, as restated | **378,410** | 277,100 | **343,070** | 255,961 |
| Made during the year | **274,172** | 379,365 | **205,403** | 313,867 |
| Amount recovered | **(57,488)** | (44,951) | **(51,820)** | (33,972) |
| Amount written off | **(228,961)** | (250,688) | **(167,416)** | (202,764) |
| Other movements | **13,225** | 29,963 | **8,263** | 22,314 |
| At end of year | **379,358** | 390,789 | **337,500** | 355,406 |

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

### (iii) By sector

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Agricultural, hunting, forestry and fishing | **1,185** | 1,246 | **1,185** | 1,246 |
| Manufacturing | **122,760** | 133,654 | **119,831** | 128,056 |
| Construction | **4,703** | 4,762 | **4,703** | 4,762 |
| Real estate | **8,590** | 14,330 | **8,590** | 14,134 |
| Wholesale & retail trade, restaurants & hotels | **67,537** | 68,509 | **62,291** | 64,653 |
| Transport, storage and communication | **10,940** | 2,261 | **10,860** | 2,261 |
| Finance, insurance and business services | **3,635** | 10,139 | **2,950** | 10,083 |
| Household-retail | **472,908** | 430,835 | **411,038** | 385,088 |
| Others | **223** | 1,500 | **223** | 1,500 |
| | **692,481** | 667,236 | **621,671** | 611,783 |

### (iv) By purpose

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Purchase of landed property: | | | | |
| -Residential | **222,778** | 193,158 | **220,560** | 191,990 |
| -Non residential | **35,713** | 32,129 | **35,602** | 32,007 |
| Purchase of securities | **29** | 380 | **29** | 380 |
| Purchase of transport vehicles | **166** | 167 | **166** | 167 |
| Consumption credit | **239,632** | 228,588 | **179,980** | 184,010 |
| Construction | **4,703** | 4,762 | **4,703** | 4,762 |
| Working capital | **189,460** | 208,052 | **180,631** | 198,467 |
| | **692,481** | 667,236 | **621,671** | 611,783 |

### (v) By geographical distribution

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Northern region | **117,512** | 118,610 | **101,069** | 107,635 |
| Southern region | **198,763** | 176,101 | **184,364** | 167,567 |
| Central region | **281,178** | 303,731 | **248,255** | 276,083 |
| Eastern region | **95,028** | 68,794 | **87,983** | 60,498 |
| | **692,481** | 667,236 | **621,671** | 611,783 |

## 12 Other Assets

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Derivative financial assets (Note 38) | **1,133,709** | 753,861 | **1,122,554** | 743,624 |
| Interest/ income receivable | **45,932** | 47,679 | **44,881** | 46,382 |
| Other receivables, deposits and prepayments | **844,378** | 333,675 | **811,921** | 326,906 |
| | **2,024,019** | 1,135,215 | **1,979,356** | 1,116,912 |

## 13 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.

## 14 Investments in Subsidiary Companies

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Unquoted shares, at cost - in Malaysia | **-** | - | **660,021** | 660,021 |

The subsidiary companies of the Bank are as follows:

| *Name* | *Principal activities* | *Country of incorporation* | *Percentage of equity held* | |
|---|---|---|---|---|
| | | | **2010** | 2009 |
| 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.

## 15 Investment in a Jointly Controlled Entity

HSBC Bank Malaysia Berhad is a joint venture partner in House Network Sdn Bhd ("HOUSe), where the Bank holds RM1 paid up ordinary share capital. HOUSe's principal activity is the management of the shared Automated Teller Machine network amongst its member banks. The other three joint venture partners of HOUSe are Standard Chartered Bank Malaysia Berhad, United Overseas Bank Malaysia Berhad and OCBC Bank Malaysia Berhad, each holding RM1 paid up ordinary share.

## 16 Property and Equipment

| 2010 | *Freehold land* | *Short term leasehold land* | *Long term leasehold land* | *Buildings on freehold land* | *Buildings on short term leasehold land* | *Buildings on long term leasehold land* | *Office equipment, fixtures and fittings* | *Computer equipment* | *Motor vehicles* | *Total* |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Group* | | | | | | | | | |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Cost or valuation** | | | | | | | | | | |
| Balance as at 1 January 2010 | **75,060** | **16,760** | **4,883** | **113,079** | **11,183** | **3,426** | **170,314** | **129,993** | **3,148** | **527,846** |
| Additions | **-** | **-** | **-** | **698** | **305** | **-** | **36,935** | **18,628** | **149** | **56,715** |
| Disposals | **-** | **-** | **-** | **-** | **-** | **-** | **(170)** | **(380)** | **(3)** | **(553)** |
| Written off | **-** | **-** | **-** | **-** | **-** | **-** | **(5,743)** | **(7,086)** | **-** | **(12,829)** |
| Adjustments for revaluation | **4,843** | **-** | **60** | **69** | **(305)** | **140** | **-** | **-** | **-** | **4,807** |
| Balance as at 31 December 2010 | **79,903** | **16,760** | **4,943** | **113,846** | **11,183** | **3,566** | **201,336** | **141,155** | **3,294** | **575,986** |
| | | | | | | | | | | |
| Representing items at: | | | | | | | | | | |
| Cost | **-** | **-** | **-** | **-** | **-** | **-** | **201,336** | **141,155** | **3,294** | **345,785** |
| Valuation - 2010 | **79,903** | **16,760** | **4,943** | **113,846** | **11,183** | **3,566** | **-** | **-** | **-** | **230,201** |
| | **79,903** | **16,760** | **4,943** | **113,846** | **11,183** | **3,566** | **201,336** | **141,155** | **3,294** | **575,986** |
| | | | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | | | |
| Balance as at 1 January 2010 | **-** | **1,754** | **508** | **-** | **-** | **-** | **129,330** | **107,238** | **1,144** | **239,974** |
| Charge for the year | **-** | **384** | **100** | **2,587** | **289** | **78** | **16,834** | **13,244** | **587** | **34,103** |
| Disposals | **-** | **-** | **-** | **-** | **-** | **-** | **(142)** | **(379)** | **(3)** | **(524)** |
| Written off | **-** | **-** | **-** | **-** | **-** | **-** | **(5,568)** | **(7,043)** | **-** | **(12,611)** |
| Adjustments for revaluation | **-** | **(384)** | **(99)** | **(2,587)** | **(289)** | **(78)** | **-** | **-** | **-** | **(3,437)** |
| Balance as at 31 December 2010 | **-** | **1,754** | **509** | **-** | **-** | **-** | **140,454** | **113,060** | **1,728** | **257,505** |
| | | | | | | | | | | |
| **Net book value at 31 December 2010** | **79,903** | **15,006** | **4,434** | **113,846** | **11,183** | **3,566** | **60,882** | **28,095** | **1,566** | **318,481** |

The land and buildings of the Group and the Bank were revalued on the open market value basis as of 31 December 2010 based on professional valuations.

Company No
127776-V

## 16 Property and Equipment (Cont'd)

| 2010 | *Freehold land* | *Short term leasehold land* | *Long term leasehold land* | *Buildings on freehold land* | *Buildings on short term leasehold land* | *Buildings on long term leasehold land* | *Office equipment, fixtures and fittings* | *Computer equipment* | *Motor vehicles* | *Total* |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Bank* | | | | | | | | | |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Cost or valuation** | | | | | | | | | | |
| Balance as at 1 January 2010 | **75,060** | **16,760** | **4,883** | **113,079** | **11,183** | **3,426** | **164,517** | **126,471** | **3,055** | **518,434** |
| Additions | **-** | **-** | **-** | **698** | **305** | **-** | **27,870** | **15,126** | **149** | **44,148** |
| Disposals | **-** | **-** | **-** | **-** | **-** | **-** | **(71)** | **(380)** | **(3)** | **(454)** |
| Written off | **-** | **-** | **-** | **-** | **-** | **-** | **(5,713)** | **(7,086)** | **-** | **(12,799)** |
| Adjustments for revaluation | **4,843** | **-** | **60** | **69** | **(305)** | **140** | **-** | **-** | **-** | **4,807** |
| Balance as at 31 December 2010 | **79,903** | **16,760** | **4,943** | **113,846** | **11,183** | **3,566** | **186,603** | **134,131** | **3,201** | **554,136** |
| | | | | | | | | | | |
| Representing items at: | | | | | | | | | | |
| Cost | **-** | **-** | **-** | **-** | **-** | **-** | **186,603** | **134,131** | **3,201** | **323,935** |
| Valuation - 2010 | **79,903** | **16,760** | **4,943** | **113,846** | **11,183** | **3,566** | **-** | **-** | **-** | **230,201** |
| | **79,903** | **16,760** | **4,943** | **113,846** | **11,183** | **3,566** | **186,603** | **134,131** | **3,201** | **554,136** |
| | | | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | | | |
| Balance as at 1 January 2010 | **-** | **1,754** | **508** | **-** | **-** | **-** | **128,233** | **106,516** | **1,051** | **238,062** |
| Charge for the year | **-** | **384** | **100** | **2,587** | **289** | **78** | **14,261** | **12,193** | **587** | **30,479** |
| Disposals | **-** | **-** | **-** | **-** | **-** | **-** | **(59)** | **(379)** | **(3)** | **(441)** |
| Written off | **-** | **-** | **-** | **-** | **-** | **-** | **(5,540)** | **(7,043)** | **-** | **(12,583)** |
| Adjustments for revaluation | **-** | **(384)** | **(99)** | **(2,587)** | **(289)** | **(78)** | **-** | **-** | **-** | **(3,437)** |
| Balance as at 31 December 2010 | **-** | **1,754** | **509** | **-** | **-** | **-** | **136,895** | **111,287** | **1,635** | **252,080** |
| | | | | | | | | | | |
| **Net book value at 31 December 2010** | **79,903** | **15,006** | **4,434** | **113,846** | **11,183** | **3,566** | **49,708** | **22,844** | **1,566** | **302,056** |

The land and buildings of the Group and the Bank were revalued on the open market value basis as of 31 December 2010 based on professional valuations.

## 16 Property and Equipment

| 2009 | *Freehold land* | *Short term leasehold land* | *Long term leasehold land* | *Buildings on freehold land* | *Buildings on short term leasehold land* | *Buildings on long term leasehold land* | *Office equipment, fixtures and fittings* | *Computer equipment* | *Motor vehicles* | *Total* |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Group* | | | | | | | | | |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Cost or valuation** | | | | | | | | | | |
| Balance as at 1 January 2009 | **68,500** | **7,986** | **13,375** | **118,003** | **4,561** | **9,998** | **155,648** | **122,911** | **4,037** | **505,019** |
| 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 | **-** | **8,412** | **(8,412)** | **-** | **6,854** | **(6,854)** | **-** | **-** | **-** | **-** |
| Downwards revaluation | **-** | **-** | **-** | **-** | **(212)** | **184** | **-** | **-** | **-** | **(28)** |
| Effect of adopting FRS 117 | **-** | **362** | **(80)** | **-** | **-** | **-** | **-** | **-** | **-** | **282** |
| Adjustments for revaluation | **6,560** | **-** | **-** | **(8,291)** | **(957)** | **98** | **-** | **-** | **-** | **(2,590)** |
| Balance as at 31 December 2009 | **75,060** | **16,760** | **4,883** | **113,079** | **11,183** | **3,426** | **170,314** | **129,993** | **3,148** | **527,846** |
| Representing items at: | | | | | | | | | | |
| Cost | **-** | **-** | **-** | **-** | **-** | **-** | **170,314** | **129,993** | **3,148** | **303,455** |
| Valuation - 2009 | **75,060** | **16,760** | **4,883** | **113,079** | **11,183** | **3,426** | **-** | **-** | **-** | **224,391** |
| | **75,060** | **16,760** | **4,883** | **113,079** | **11,183** | **3,426** | **170,314** | **129,993** | **3,148** | **527,846** |
| **Accumulated depreciation** | | | | | | | | | | |
| Balance as at 1 January 2009 | **-** | **730** | **1,080** | **9,305** | **471** | **535** | **120,552** | **93,037** | **1,666** | **227,376** |
| Charge for the year | **-** | **351** | **101** | **2,483** | **275** | **63** | **15,574** | **15,077** | **687** | **34,611** |
| Disposals | **-** | **-** | **-** | **-** | **-** | **-** | **(174)** | **(30)** | **(1,209)** | **(1,413)** |
| Written off | **-** | **-** | **-** | **-** | **-** | **-** | **(6,622)** | **(846)** | **-** | **(7,468)** |
| Reclassification | **-** | **673** | **(673)** | **-** | **284** | **(284)** | **-** | **-** | **-** | **-** |
| Adjustments for revaluation | **-** | **-** | **-** | **(11,788)** | **(1,030)** | **(314)** | **-** | **-** | **-** | **(13,132)** |
| Balance as at 31 December 2009 | **-** | **1,754** | **508** | **-** | **-** | **-** | **129,330** | **107,238** | **1,144** | **239,974** |
| **Net book value at 31 December 2009** | **75,060** | **15,006** | **4,375** | **113,079** | **11,183** | **3,426** | **40,984** | **22,755** | **2,004** | **287,872** |

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 valuations.

## 16 Property and Equipment (Cont'd)

| 2009 | Bank | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Freehold land* | *Short term leasehold land* | *Long term leasehold land* | *Buildings on freehold land* | *Buildings on short term leasehold land* | *Buildings on long term leasehold land* | *Office equipment, fixtures and fittings* | *Computer equipment* | *Motor vehicles* | *Total* |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Cost or valuation** | | | | | | | | | | |
| Balance as at 1 January 2009 | **68,500** | **7,986** | **13,375** | **118,003** | **4,561** | **9,998** | **155,068** | **120,827** | **3,660** | **501,978** |
| 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 | **-** | **8,412** | **(8,412)** | **-** | **6,854** | **(6,854)** | **-** | **-** | **-** | **-** |
| Downwards revaluation | **-** | **-** | **-** | **-** | **(212)** | **184** | **-** | **-** | **-** | **(28)** |
| Effect of adopting FRS 117 | **-** | **362** | **(80)** | **-** | **-** | **-** | **-** | **-** | **-** | **282** |
| Adjustments for revaluation | **6,560** | **-** | **-** | **(8,291)** | **(957)** | **98** | **-** | **-** | **-** | **(2,590)** |
| Balance as at 31 December 2009 | **75,060** | **16,760** | **4,883** | **113,079** | **11,183** | **3,426** | **164,517** | **126,471** | **3,055** | **518,434** |
| | | | | | | | | | | |
| Representing items at: | | | | | | | | | | |
| Cost | **-** | **-** | **-** | **-** | **-** | **-** | **164,517** | **126,471** | **3,055** | **294,043** |
| Valuation - 2009 | **75,060** | **16,760** | **4,883** | **113,079** | **11,183** | **3,426** | **-** | **-** | **-** | **224,391** |
| | **75,060** | **16,760** | **4,883** | **113,079** | **11,183** | **3,426** | **164,517** | **126,471** | **3,055** | **518,434** |
| | | | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | | | |
| Balance as at 1 January 2009 | **-** | **730** | **1,080** | **9,305** | **471** | **535** | **120,273** | **92,977** | **1,447** | **226,818** |
| Charge for the year | **-** | **351** | **101** | **2,483** | **275** | **63** | **14,714** | **14,415** | **656** | **33,058** |
| Disposals | **-** | **-** | **-** | **-** | **-** | **-** | **(174)** | **(30)** | **(1,052)** | **(1,256)** |
| Written off | **-** | **-** | **-** | **-** | **-** | **-** | **(6,580)** | **(846)** | **-** | **(7,426)** |
| Reclassification | | **673** | **(673)** | **-** | **284** | **(284)** | **-** | **-** | **-** | **-** |
| Adjustments for revaluation | **-** | **-** | **-** | **(11,788)** | **(1,030)** | **(314)** | **-** | **-** | **-** | **(13,132)** |
| Balance as at 31 December 2009 | **-** | **1,754** | **508** | **-** | **-** | **-** | **128,233** | **106,516** | **1,051** | **238,062** |
| | | | | | | | | | | |
| **Net book value at 31 December 2009** | **75,060** | **15,006** | **4,375** | **113,079** | **11,183** | **3,426** | **36,284** | **19,955** | **2,004** | **280,372** |

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 valuations.

## 17 Intangible Assets

| | *Group* | *Bank* |
|---|---|---|
| | *Computer software* | |
| **2010** | **RM'000** | **RM'000** |
| **Cost** | | |
| Balance as at 1 January 2010 | **132,764** | **126,897** |
| Additions | **29,695** | **29,683** |
| Written off | **(768)** | **(768)** |
| Balance as at 31 December 2010 | **161,691** | **155,812** |
| | | |
| **Accumulated depreciation** | | |
| Balance as at 1 January 2010 | **75,577** | **71,933** |
| Charge for the year | **26,261** | **25,525** |
| Written off | **(768)** | **(768)** |
| Balance as at 31 December 2010 | **101,070** | **96,690** |
| | | |
| **Net book value at 31 December 2010** | **60,621** | **59,122** |

| | *Group* | *Bank* |
|---|---|---|
| | *Computer software* | |
| **2009** | RM'000 | RM'000 |
| **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 | 132,764 | 126,897 |
| | | |
| **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 | 75,577 | 71,933 |
| | | |
| **Net book value at 31 December 2009** | 57,187 | 54,964 |

## 18 Deferred Tax

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

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Deferred tax liabilities | **(22,511)** | (19,815) | **(20,783)** | (18,874) |
| Deferred tax assets | **190,855** | 102,429 | **171,125** | 87,604 |
| | **168,344** | 82,614 | **150,342** | 68,730 |

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

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

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Property, plant and equipment | | | | |
| - capital allowances | **(18,322)** | (17,533) | **(16,594)** | (16,749) |
| - revaluation | **(19,233)** | (18,874) | **(19,233)** | (18,874) |
| Available-for-sale reserve | **(1,504)** | 3,801 | **(1,550)** | 3,947 |
| Allowances | | | | |
| - collective impairment allowance | **127,158** | 110,074 | **112,100** | 96,925 |
| - others | **80,007** | 5,205 | **75,384** | 3,529 |
| Lease receivables | **238** | (59) | **235** | (48) |
| | **168,344** | 82,614 | **150,342** | 68,730 |

## 18 Deferred tax (Cont'd)

### Movement in temporary differences during the year

| | *Group* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *As at 01-Jan-09* | *Recognised in income statement* | *Effect of change in tax rate* | *Recognised in other comprehensive income* | **Effect of adopting FRS 117* | *As at 31-Dec-09 / 01-Jan-10* | *Recognised in income statement* | *Recognised in other comprehensive income* | *As at 31-Dec-10* |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Property, plant and equipment | | | | | | | | | |
| - capital allowances | (18,836) | 579 | 724 | - | - | **(17,533)** | **(789)** | **-** | **(18,322)** |
| - revaluation | (18,824) | 266 | - | (249) | (67) | **(18,874)** | **491** | **(850)** | **(19,233)** |
| Available for sale reserve | 888 | - | - | 2,913 | - | **3,801** | **-** | **(5,305)** | **(1,504)** |
| Allowances | | | | | | | | | |
| - collective impairment allowance | 120,275 | (5,575) | (4,626) | - | - | **110,074** | **17,084** | **-** | **127,158** |
| - others | 2,970 | 2,349 | (114) | - | - | **5,205** | **74,802** | **-** | **80,007** |
| Lease receivables | 296 | (343) | (12) | - | - | **(59)** | **297** | **-** | **238** |
| | 86,769 | (2,724) | (4,028) | 2,664 | (67) | **82,614** | **91,885** | **(6,155)** | **168,344** |

| | *Bank* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *As at 01-Jan-09* | *Recognised in income statement* | *Effect of change in tax rate* | *Recognised in other comprehensive income* | **Effect of adopting FRS 117* | *As at 31-Dec-09 / 01-Jan-10* | *Recognised in income statement* | *Recognised in other comprehensive income* | *As at 31-Dec-10* |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Property, plant and equipment | | | | | | | | | |
| - capital allowances | (18,536) | 1,074 | 713 | - | - | **(16,749)** | **155** | **-** | **(16,594)** |
| - revaluation | (18,824) | 266 | - | (249) | (67) | **(18,874)** | **491** | **(850)** | **(19,233)** |
| Available for sale reserve | 1,271 | - | - | 2,676 | - | **3,947** | **-** | **(5,497)** | **(1,550)** |
| Allowances | | | | | | | | | |
| - collective impairment allowance | 106,600 | (5,575) | (4,100) | - | - | **96,925** | **15,175** | **-** | **112,100** |
| - others | 736 | 2,821 | (28) | - | - | **3,529** | **71,855** | **-** | **75,384** |
| Lease receivables | 319 | (354) | (13) | - | - | **(48)** | **283** | **-** | **235** |
| | 71,566 | (1,768) | (3,428) | 2,427 | (67) | **68,730** | **87,959** | **(6,347)** | **150,342** |

** Recognised in other comprehensive income (prior year adjustment)*

## 19 Deposits from Customers

### (i) By type of deposit

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Demand deposits | **10,452,840** | 10,254,916 | **9,939,130** | 10,126,661 |
| Savings deposits | **8,225,387** | 7,089,713 | **7,570,037** | 6,581,567 |
| Fixed / Investment deposits | **23,847,727** | 21,758,455 | **21,363,980** | 20,123,308 |
| Negotiable instruments of deposit | **860,786** | 417,289 | **860,786** | 417,289 |
| Wholesale money market deposits | **2,379,524** | 2,521,745 | **2,379,524** | 2,521,745 |
| Others | **2,573,160** | 2,644,240 | **2,443,452** | 2,443,398 |
| | **48,339,424** | 44,686,358 | **44,556,909** | 42,213,968 |

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

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Due within six months | **19,308,201** | 17,184,934 | **17,143,088** | 15,824,484 |
| More than six months to one year | **4,311,527** | 4,553,680 | **4,016,246** | 4,280,602 |
| More than one year to three years | **689,572** | 256,385 | **670,836** | 255,924 |
| More than three years to five years | **399,076** | 180,745 | **394,459** | 179,587 |
| Over 5 years | **137** | - | **137** | - |
| | **24,708,513** | 22,175,744 | **22,224,766** | 20,540,597 |

### (ii) By type of customer

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Government and statutory bodies | **152,207** | 90,038 | **17,688** | 14,922 |
| Business enterprises | **17,364,412** | 16,197,083 | **15,792,441** | 15,457,644 |
| Individuals | **23,637,923** | 21,849,408 | **21,937,928** | 20,588,871 |
| Others | **7,184,882** | 6,549,829 | **6,808,852** | 6,152,531 |
| | **48,339,424** | 44,686,358 | **44,556,909** | 42,213,968 |

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

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Bank Negara Malaysia | **68,133** | 59,551 | **68,133** | 59,551 |
| Other financial institutions | **6,784,915** | 2,760,087 | **6,193,403** | 2,650,471 |
| | **6,853,048** | 2,819,638 | **6,261,536** | 2,710,022 |

## 21 Other Liabilities

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Derivative financial liabilities | **970,123** | 618,732 | **958,968** | 608,495 |
| Interest/ profit payable | **176,702** | 152,594 | **161,520** | 144,551 |
| Allowance for commitments and contingencies | **1,980** | 2,440 | **1,980** | 2,440 |
| Profit equalisation reserve | **6,700** | 6,700 | **-** | - |
| Other creditors and accruals | **1,280,623** | 1,041,464 | **1,236,028** | 1,363,164 |
| | **2,436,128** | 1,821,930 | **2,358,496** | 2,118,650 |

Movement in allowance for commitments and contingencies is as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| At beginning of year | **2,440** | 2,014 | **2,440** | 2,014 |
| Allowance made during the year | **32** | 1,103 | **32** | 1,103 |
| Amount released | **(492)** | (677) | **(492)** | (677) |
| | **(460)** | 426 | **(460)** | 426 |
| At end of year | **1,980** | 2,440 | **1,980** | 2,440 |

## 22 Provision for Taxation and Zakat

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Taxation | **103,058** | 37,653 | **98,710** | 33,986 |
| Zakat | **100** | 120 | **-** | - |
| | **103,158** | 37,773 | **98,710** | 33,986 |

## 23 Subordinated Bonds

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **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 | **3,039** | 385 | **3,039** | 385 |
| | **1,003,039** | 1,000,385 | **1,003,039** | 1,000,385 |

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

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

The Bank has undertaken a 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.

The first tranch of RM 500 million subordinated bonds maturing on 28 June 2022, may be called and redeemed by the Bank, in whole or in part at any anniversary date, on or after 28 June 2017, subject to prior consent of Bank Negara Malaysia (BNM). If the subordinated bonds are not redeemed on 28 June 2017, coupon payable is stepped up by 100 basis point to 5.35% p.a.

The second tranch of RM 500 million subordinated bonds maturing on 2 November 2027, may be called and redeemed by the Bank, in whole or in part at any anniversary date, on or after 2 November 2022, subject to prior consent of BNM. If the subordinated bonds are not redeemed on 2 November 2022, coupon payable is stepped up by 100 basis point to 6.05% p.a.

Both tranches of subordinated bonds are repayable at par on maturity.

The subordinated bonds qualify as a component of Tier 2 capital of the Bank. However, it is a BNM's requirement to amortise the subordinated bonds on a straight-line basis for regulatory capital base purpose, in their final 5 years of maturity.

## 24 Share Capital

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | 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 |

## 25 Reserves

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Share premium | **741,375** | 741,375 | **741,375** | 741,375 |
| Statutory reserve | **164,500** | 154,604 | **114,500** | 114,500 |
| Revaluation reserve | **139,110** | 133,216 | **139,110** | 133,216 |
| Capital redemption reserve | **190,000** | 190,000 | **190,000** | 190,000 |
| Available-for-sale reserve | **4,512** | (11,406) | **4,648** | (11,843) |
| Retained profits | **2,635,920** | 2,312,009 | **2,561,268** | 2,271,906 |
| | **3,875,417** | 3,519,798 | **3,750,901** | 3,439,154 |

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.

Subject to agreement by the Inland Revenue Board, the Bank has sufficient Section 108 tax credit and tax exempt income to distribute approximately RM2,171,798,000 of its unappropriated profits at 31 December 2010, if paid out as dividends.

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 2010 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.

## 26 Net Interest Income

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| **Interest income** | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Loans and advances | | | | |
| - Interest income other than from impaired loans | **1,350,442** | 1,321,220 | **1,350,442** | 1,321,220 |
| - Interest income recognised from impaired loans | **38,298** | 31,164 | **38,298** | 31,164 |
| Money at call and deposit placements with financial institutions | **424,533** | 282,525 | **458,106** | 306,855 |
| Financial investments available-for-sale | **80,564** | 116,515 | **80,564** | 116,515 |
| Fair value hedge derivative assets | **7,135** | 6,869 | **7,135** | 6,869 |
| | **1,900,972** | 1,758,293 | **1,934,545** | 1,782,623 |
| **Interest expense** | | | | |
| Deposits and placements of banks and other financial institutions | **(49,826)** | (29,406) | **(49,826)** | (29,406) |
| Deposits from customers | **(679,747)** | (623,363) | **(679,747)** | (623,363) |
| Loans sold to Cagamas | **(24,965)** | (30,719) | **(24,965)** | (30,719) |
| Subordinated bonds | **(47,000)** | (47,000) | **(47,000)** | (47,000) |
| Others | **(6,416)** | (7,043) | **(6,416)** | (7,043) |
| | **(807,954)** | (737,531) | **(807,954)** | (737,531) |
| **Net interest income** | **1,093,018** | 1,020,762 | **1,126,591** | 1,045,092 |

All items of interest income and expense were recognised from assets and liabilities that were not at fair value through profit or loss.

## 27 Net Fee and Commission Income

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| **Fee and commission income** | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Credit cards | **178,779** | 188,359 | **178,779** | 188,359 |
| Service charges and fees | **142,392** | 128,021 | **142,392** | 128,021 |
| Fees on credit facilities | **30,854** | 31,708 | **30,854** | 31,708 |
| Agency fee | **58,925** | 33,500 | **58,925** | 33,500 |
| Others | **49,791** | 44,971 | **49,791** | 44,971 |
| | **460,741** | 426,559 | **460,741** | 426,559 |
| **Fee and commission expense** | | | | |
| Interbank and clearing fees | **(899)** | (882) | **(899)** | (882) |
| Brokerage | **(2,400)** | (1,979) | **(2,400)** | (1,979) |
| Others | **(26,850)** | (22,873) | **(26,850)** | (22,873) |
| | **(30,149)** | (25,734) | **(30,149)** | (25,734) |
| **Net fee and commission income** | **430,592** | 400,825 | **430,592** | 400,825 |

## 28 Net Trading Income

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Financial assets held-for-trading and other financial instruments | **59,725** | 10,043 | **59,725** | 10,043 |
| Net interest income from financial assets held-for-trading | **73,648** | 56,248 | **73,648** | 56,248 |
| Net unrealised gains on revaluation of financial assets held-for-trading | **4,781** | 11,199 | **4,781** | 11,199 |
| Net gains arising from dealing in foreign currency | **296,148** | 351,301 | **296,148** | 351,301 |
| Net unrealised gains/(losses) from dealing in foreign currency | **59,122** | (30,123) | **59,122** | (30,123) |
| Net gains/(losses) arising from trading in derivatives | **3,406** | (358) | **3,406** | (358) |
| Net unrealised gains on revaluation of derivatives | **52,187** | 36,253 | **52,187** | 36,253 |
| (Losses)/gains arising from fair value hedges | **(15)** | 113 | **(15)** | 113 |
| | **549,002** | 434,676 | **549,002** | 434,676 |

## 29 Income from Islamic Banking operations

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **RM'000** | RM'000 |
| Income derived from investment of depositor funds and others | **314,951** | 248,760 |
| Income derived from investment of shareholders funds | **74,169** | 72,445 |
| Income attributable to the depositors | **(66,486)** | (50,985) |
| Income from Islamic Banking operations | **322,634** | 270,220 |

## 30 Other Operating Income

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Disposal of financial investments available-for-sale | **8,725** | 28,438 | **8,725** | 28,438 |
| Dividend income from financial investments available-for-sale | | | | |
| - Unquoted in Malaysia | **1,161** | 1,195 | **1,161** | 1,195 |
| - Quoted outside Malaysia | **299** | 558 | **299** | 558 |
| Rental income | **6,865** | 6,955 | **6,865** | 6,955 |
| Net gains on disposal of property and equipment | **15** | 312 | **15** | 312 |
| Net upwards/(downwards) revaluation on property | **18** | (28) | **18** | (28) |
| Other operating income | **24,990** | 29,209 | **123,488** | 108,057 |
| | **42,073** | 66,639 | **140,571** | 145,487 |

## 31 Loans/ Financing Impairment Charges and other Credit Risk Provisions

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Impairment charges on loans and financing: | | | | |
| (a) Individual impairment / (2009: Specific allowance) | | | | |
| Made during the financial year | **274,172** | 379,365 | **205,403** | 313,867 |
| Written back | **(57,488)** | (44,951) | **(51,820)** | (33,972) |
| (b) Collective impairment / (2009: General allowance) | | | | |
| Made during the financial year | **90,588** | 12,400 | **71,600** | 12,400 |
| Written back | **(11,830)** | (34,700) | **(10,900)** | (34,700) |
| Impaired loans | | | | |
| Recovered during the financial year | **(89,810)** | (73,750) | **(74,790)** | (65,506) |
| Written off | **34,166** | 20,116 | **29,461** | 18,951 |
| Impairment charges on commitments and contingencies: | | | | |
| Made during the financial year | **32** | 1,103 | **32** | 1,103 |
| Written back | **(492)** | (676) | **(492)** | (676) |
| | **239,338** | 258,907 | **168,494** | 211,467 |

## 32 Other Operating Expenses

| | Group | | Bank | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Personnel expenses | **551,379** | 541,271 | **527,908** | 525,422 |
| Promotion and marketing related expenses | **90,102** | 72,626 | **80,218** | 56,864 |
| Establishment related expenses | **141,538** | 122,881 | **130,159** | 115,162 |
| General administrative expenses | **367,830** | 305,069 | **356,123** | 302,225 |
| | **1,150,849** | 1,041,847 | **1,094,408** | 999,673 |
| The above expenditure includes the following major items : | | | | |
| Personnel expenses | | | | |
| Salaries, allowances and bonuses | **422,733** | 401,869 | **404,263** | 387,902 |
| Employees Provident Fund contributions | **69,578** | 68,554 | **66,517** | 66,672 |
| Promotion and marketing related expenses | | | | |
| Advertising and promotion | **68,444** | 55,328 | **58,560** | 39,566 |
| Establishment related expenses | | | | |
| Depreciation of property and equipment | **34,103** | 34,611 | **30,479** | 33,058 |
| Amortisation of intangible assets | **26,261** | 22,482 | **25,525** | 21,795 |
| Information technology costs | **14,602** | 13,713 | **14,096** | 13,361 |
| Hire of equipment | **6,478** | 7,682 | **6,287** | 7,566 |
| Rental of premises | **32,098** | 23,513 | **27,379** | 19,426 |
| Property and equipment written off | **218** | 82 | **216** | 82 |
| General administrative expenses | | | | |
| Intercompany expenses | **248,494** | 226,941 | **239,300** | 224,166 |
| Auditors' remuneration | | | | |
| -Statutory audit | **455** | 405 | **375** | 355 |
| -Other services | **437** | 299 | **307** | 261 |

## 33 Taxation and Zakat

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Malaysian income tax | **297,037** | 220,673 | **279,700** | 202,337 |
| Deferred tax | | | | |
| Origination and reversal of temporary differences | | | | |
| - Current year | **(21,639)** | 2,724 | **(20,644)** | 1,768 |
| - Prior year | **(70,246)** | - | **(67,315)** | - |
| Effect of change in tax rate | **-** | 4,028 | **-** | 3,428 |
| | **205,152** | 227,425 | **191,741** | 207,533 |
| Underprovision in respect of prior years | **76,626** | 137 | **71,172** | 137 |
| | **281,778** | 227,562 | **262,913** | 207,670 |
| Zakat | **-** | 50 | **-** | - |
| | **281,778** | 227,612 | **262,913** | 207,670 |

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

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Profit before income tax | **1,047,132** | 882,731 | **983,854** | 805,303 |
| Income tax using Malaysian tax rates (25%) | **261,784** | 220,683 | **245,964** | 201,326 |
| Non-deductible expenses | **14,355** | 8,736 | **13,375** | 8,409 |
| Tax exempt income | **(741)** | (6,022) | **(283)** | (5,630) |
| Effect of changes in tax rate* | **-** | 4,028 | **-** | 3,428 |
| Under/ (over) provision in respect of prior years | **6,380** | 137 | **3,857** | 137 |
| Tax expense | **281,778** | 227,562 | **262,913** | 207,670 |

*The corporate tax rate is 25% for the year of assessment 2009 and subsequent years onwards. Consequently, deferred tax assets and liabilities are measured using these tax rates.

## 34 Earnings per Share

The earnings per ordinary share have been calculated based on the net profit and 229,000,000 (2009: 229,000,000) ordinary shares of RM0.50 each in issue during the year.

## 35 Significant Related Party Transactions and Balances

| | Group | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | ***Parent companies*** | ***Other related companies*** | *Parent companies* | *Other related companies* |
| | **RM'000** | **RM'000** | RM'000 | RM'000 |
| Income | | | | |
| Interest/profit on intercompany placements | **47,300** | **825** | 21,267 | 508 |
| Interest/profit on current accounts | **-** | **20** | - | 1 |
| Fees and commission | **3,090** | **40,654** | 7,072 | 19,188 |
| Other income | **2,178** | **15,515** | 396 | 18,792 |
| | **52,568** | **57,014** | 28,735 | 38,489 |
| Expenditure | | | | |
| Interest/profit on intercompany deposits | **20,859** | **11,138** | 4,359 | 2,452 |
| Interest/profit on current accounts | **8** | **567** | 26 | 615 |
| Fees and commission | **589** | **6,795** | 149 | 3,602 |
| Operating expenses | **207,934** | **40,560** | 208,113 | 18,829 |
| | **229,390** | **59,060** | 212,647 | 25,498 |
| Amount due from | | | | |
| Intercompany placements | **561,207** | **451,539** | 1,595,908 | - |
| Current account balances | **226,007** | **200,569** | 18,492 | 122,739 |
| Other assets | **104,991** | **608,821** | 107,341 | 69,246 |
| | **892,205** | **1,260,929** | 1,721,741 | 191,985 |
| Amount due to | | | | |
| Intercompany deposits | **2,888,228** | **86,745** | 1,165,315 | 373,895 |
| Current account balances | **18,797** | **153,909** | 11,010 | 104,260 |
| Other liabilities | **176,739** | **192,191** | 271,751 | 139,373 |
| | **3,083,764** | **432,845** | 1,448,076 | 617,528 |

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

| | *Bank* | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | ***Parent companies*** | ***Other related companies*** | *Parent companies* | *Other related companies* |
| | **RM'000** | **RM'000** | RM'000 | RM'000 |
| Income | | | | |
| Interest on intercompany placements | **47,300** | **34,398** | 21,267 | 24,839 |
| Interest on current accounts | **-** | **20** | - | - |
| Fees and commission | **2,988** | **36,667** | 7,072 | 17,089 |
| Other income | **2,178** | **114,011** | 396 | 97,640 |
| | **52,466** | **185,096** | 28,735 | 139,568 |
| Expenditure | | | | |
| Interest on intercompany deposits | **20,859** | **1,619** | 4,359 | 1,337 |
| Interest on current accounts | **8** | **567** | 26 | 615 |
| Fees and commission | **588** | **5,685** | 149 | 3,599 |
| Operating expenses | **207,899** | **31,401** | 208,085 | 16,081 |
| | **229,354** | **39,272** | 212,619 | 21,632 |
| Amount due from | | | | |
| Intercompany placements | **561,207** | **1,944,626** | 1,595,908 | 1,401,291 |
| Current account balances | **225,777** | **198,861** | 18,492 | 118,549 |
| Other assets | **74,464** | **611,820** | 107,341 | 70,821 |
| | **861,448** | **2,755,307** | 1,721,741 | 1,590,661 |
| Amount due to | | | | |
| Intercompany deposits | **2,888,228** | **86,000** | 1,165,315 | 34,631 |
| Current account balances | **18,797** | **153,909** | 11,010 | 101,388 |
| Other liabilities | **176,369** | **183,974** | 271,579 | 491,610 |
| | **3,083,394** | **423,883** | 1,447,904 | 627,629 |

All transactions of the Group and Bank and its related parties are made in the ordinary course of business and on substantially the same terms, including interest 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 2010 amount to RM110,463 (2009: RM148,842) and RM68,449 (2009: RM52,915) respectively.

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

(b) Key Management Personnel Compensation

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

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Executive Directors and CEO | | | | |
| Short-term employee benefits | | | | |
| Salary and other remuneration | **5,558** | 4,119 | **4,597** | 3,437 |
| Bonuses | **1,105** | 2,508 | **905** | 2,296 |
| Benefits-in-kind | **303** | 269 | **303** | 269 |
| | **6,966** | 6,896 | **5,805** | 6,002 |
| Post-employment benefits | **375** | 493 | **375** | 493 |
| Share-based payment | **-** | 61 | **-** | 61 |
| | **7,341** | 7,450 | **6,180** | 6,556 |
| Non-Executive Directors | | | | |
| Short-term employee benefits | | | | |
| Fees | **809** | 918 | **425** | 534 |
| | **809** | 918 | **425** | 534 |

The directors' shareholdings in the shares of the ultimate holding company, HSBC Holdings plc, are shown in the Directors' Report.

(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:

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | *Number of Directors* | | *Number of Directors* | |
| | **2010** | 2009 | **2010** | 2009 |
| Executive Directors | | | | |
| RM3,000,001 to RM4,000,000 | **1** | 1 | **1** | 1 |
| RM2,000,001 to RM3,000,000 | **1** | 1 | **1** | 1 |
| RM1 to RM1,000,000 | **2** | 2 | **-** | 1 |
| | **4** | 4 | **2** | 3 |
| Non-Executive Directors | | | | |
| RM50,001 - RM100,000 | **10** | 12 | **5** | 7 |
| RM50,000 and below | **2** | - | **2** | - |
| | **12** | 12 | **7** | 7 |

## 36 Credit exposure to connected parties

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

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Aggregate value of outstanding credit exposures to connected parties | **1,112,502** | 365,114 | **1,107,928** | 364,923 |
| As a percentage of total credit exposures | **2.6%** | 1.0% | **3.0%** | 1.1% |
| Aggregate value of total outstanding credit exposures to connected parties which is impaired or in default | **-** | - | **-** | - |
| As a percentage of total credit exposures | **-** | - | **-** | - |

## 37 Capital Adequacy

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **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) | **2,885,920** | 2,562,009 |
| Statutory reserve | **164,500** | 154,604 |
| | **4,096,295** | 3,762,488 |
| Less: Deferred tax adjustments | **(189,082)** | (97,687) |
| Total Tier 1 capital | **3,907,213** | 3,664,801 |
| | | |
| **Tier 2 capital** | | |
| Subordinated bonds | **1,003,039** | 1,000,385 |
| Revaluation reserves | **80,726** | 77,357 |
| Collective impairment allowance / (2009: General Allowance) | **508,539** | 440,297 |
| Total Tier 2 capital | **1,592,304** | 1,518,039 |
| | | |
| Total capital | **5,499,517** | 5,182,840 |
| **Capital base** | **5,499,517** | 5,182,840 |
| | | |
| Core capital ratio | **10.2%** | 11.1% |
| Risk-weighted capital ratio | **14.4%** | 15.8% |
| Core capital ratio (net of proposed dividend) | **9.6%** | 10.4% |
| Risk-weighted capital ratio (net of proposed dividend) | **13.7%** | 15.0% |

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

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

| | Group | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **Principal** | **Risk-weighted** | Principal | Risk-weighted |
| | **RM'000** | **RM'000** | RM'000 | RM'000 |
| Total RWA for credit risk | **69,088,318** | **31,677,595** | 63,293,707 | 27,030,500 |
| Total RWA for market risk | **-** | **2,069,218** | - | 1,558,720 |
| Total RWA for operational risk | **-** | **4,458,252** | - | 4,299,805 |
| | **69,088,318** | **38,205,065** | 63,293,707 | 32,889,025 |

## 37 Capital Adequacy (Cont'd)

| | *Bank* | |
|---|---|---|
| | **2010** | 2009 |
| | **RM'000** | RM'000 |
| **Tier 1 capital** | | Restated |
| 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) | **2,811,268** | 2,521,906 |
| Statutory reserve | **114,500** | 114,500 |
| | **3,971,643** | 3,682,281 |
| Less: Deferred tax adjustments | **(187,035)** | (99,566) |
| Total Tier 1 capital | **3,784,608** | 3,582,715 |
| | | |
| **Tier 2 capital** | | |
| Subordinated bonds | **1,003,039** | 1,000,385 |
| Revaluation reserves | **80,726** | 77,357 |
| Collective impairment allowance / (2009: General Allowance) | **438,997** | 387,700 |
| Total Tier 2 capital | **1,522,762** | 1,465,442 |
| | | |
| Total capital | **5,307,370** | 5,048,157 |
| Less: Investment in subsidiaries | **(660,021)** | (660,021) |
| **Capital base** | **4,647,349** | 4,388,136 |
| | | |
| Core capital ratio | **11.0%** | 11.8% |
| Risk-weighted capital ratio | **13.6%** | 14.5% |
| Core capital ratio (net of proposed dividend) | **10.3%** | 11.0% |
| Risk-weighted capital ratio (net of proposed dividend) | **12.8%** | 13.7% |

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

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

| | *Bank* | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **Principal** | **Risk-weighted** | Principal | Risk-weighted |
| | **RM'000** | **RM'000** | RM'000 | RM'000 |
| Total RWA for credit risk | **63,519,386** | **28,018,139** | 60,002,149 | 24,575,852 |
| Total RWA for market risk | **-** | **2,039,942** | - | 1,534,062 |
| Total RWA for operational risk | **-** | **4,206,057** | - | 4,161,243 |
| | **63,519,386** | **34,264,138** | 60,002,149 | 30,271,157 |

**37 Capital Adequacy (Cont'd)**

**2010** *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)** |
|---|---|---|---|---|---|---|
| ***Credit Risk*** | | | | | | |
| *On-Balance Sheet Exposures* | | | | | | |
| Sovereigns/Central Banks | | **17,746,419** | **17,746,419** | **-** | **-** | **-** |
| Banks, Development Financial Institutions & MDBs | | **6,656,772** | **6,656,772** | **1,374,660** | **1,374,660** | **109,973** |
| Corporates | | **13,387,801** | **12,777,471** | **12,073,825** | **12,073,825** | **965,906** |
| Regulatory Retail | | **6,845,700** | **6,682,619** | **4,983,714** | **4,983,714** | **398,697** |
| Residential Mortgages | | **15,588,458** | **15,563,175** | **6,631,049** | **6,631,049** | **530,484** |
| Higher Risk Assets | | **1,417** | **1,417** | **2,125** | **2,125** | **170** |
| Other Assets | | **911,335** | **911,335** | **701,615** | **701,615** | **56,129** |
| Equity Exposure | | **27,604** | **27,604** | **27,604** | **27,604** | **2,208** |
| Defaulted Exposures | | **459,704** | **452,405** | **541,028** | **541,028** | **43,282** |
| **Total for On-Balance Sheet Exposures** | | **61,625,210** | **60,819,217** | **26,335,620** | **26,335,620** | **2,106,849** |
| *Off-Balance Sheet Exposures* | | | | | | |
| OTC Derivatives | | **2,865,041** | **2,865,041** | **1,480,217** | **1,480,217** | **118,417** |
| Off balance sheet exposures other than OTC derivatives or credit derivatives | | **4,507,094** | **4,392,275** | **3,736,124** | **3,736,124** | **298,890** |
| Defaulted Exposures | | **90,973** | **84,099** | **125,634** | **125,634** | **10,051** |
| **Total for Off-Balance Sheet Exposures** | | **7,463,108** | **7,341,415** | **5,341,975** | **5,341,975** | **427,358** |
| **Total On and Off-Balance Sheet Exposures** | | **69,088,318** | **68,160,632** | **31,677,595** | **31,677,595** | **2,534,207** |
| ***Large Exposures Risk Requirement*** | | **-** | **-** | **-** | **-** | **-** |
| ***Market Risk*** | | | | | | |
| | **Long Position** | **Short Position** | | | | |
| Interest Rate Risk | **52,380,571** | **47,672,088** | **4,708,483** | **1,733,079** | **1,733,079** | **138,646** |
| Foreign Currency Risk | **97,001** | **301,983** | **302,376** | **302,376** | **302,376** | **24,190** |
| Option Risk | **-** | **-** | **-** | **33,763** | **33,763** | **2,701** |
| | **52,477,572** | **47,974,071** | **5,010,859** | **2,069,218** | **2,069,218** | **165,537** |
| **Operational Risk** | **-** | **-** | **-** | **4,458,252** | **4,458,252** | **356,660** |
| **Total RWA and Capital Requirement** | **-** | **-** | **-** | **38,205,065** | **38,205,065** | **3,056,404** |

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*

## 37 Capital Adequacy (Cont'd)

**2010** — *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) |
|---|---|---|---|---|---|---|
| ***Credit Risk*** | | | | | | |
| *On-Balance Sheet Exposures* | | | | | | |
| Sovereigns/Central Banks | | **15,959,872** | **15,959,872** | **-** | **-** | **-** |
| Banks, Development Financial Institutions & MDBs | | **7,686,319** | **7,686,319** | **1,743,182** | **1,743,182** | **139,455** |
| Corporates | | **10,960,822** | **10,405,592** | **9,713,028** | **9,713,028** | **777,042** |
| Regulatory Retail | | **5,136,868** | **4,990,892** | **3,715,971** | **3,715,971** | **297,278** |
| Residential Mortgages | | **15,088,642** | **15,063,483** | **6,364,538** | **6,364,538** | **509,163** |
| Higher Risk Assets | | **1,417** | **1,417** | **2,125** | **2,125** | **170** |
| Other Assets | | **1,221,020** | **1,221,020** | **1,011,300** | **1,011,300** | **80,904** |
| Equity Exposure | | **27,604** | **27,604** | **27,604** | **27,604** | **2,208** |
| Defaulted Exposures | | **402,838** | **396,258** | **461,246** | **461,246** | **36,900** |
| **Total for On-Balance Sheet Exposures** | | **56,485,402** | **55,752,457** | **23,038,994** | **23,038,994** | **1,843,120** |
| *Off-Balance Sheet Exposures* | | | | | | |
| OTC Derivatives | | **2,844,574** | **2,844,574** | **1,476,124** | **1,476,124** | **118,090** |
| Off balance sheet exposures other than OTC derivatives or credit derivatives | | **4,098,706** | **3,995,812** | **3,377,787** | **3,377,787** | **270,223** |
| Defaulted Exposures | | **90,704** | **83,830** | **125,234** | **125,234** | **10,019** |
| **Total for Off-Balance Sheet Exposures** | | **7,033,984** | **6,924,216** | **4,979,145** | **4,979,145** | **398,332** |
| **Total On and Off-Balance Sheet Exposures** | | **63,519,386** | **62,676,673** | **28,018,139** | **28,018,139** | **2,241,452** |
| ***Large Exposures Risk Requirement*** | | **-** | **-** | **-** | **-** | **-** |
| ***Market Risk*** | | | | | | |
| | **Long Position** | **Short Position** | | | | |
| Interest Rate Risk | **52,205,910** | **47,647,014** | **4,558,896** | **1,706,496** | **1,706,496** | **136,520** |
| Foreign Currency Risk | **94,308** | **299,683** | **299,683** | **299,683** | **299,683** | **23,975** |
| Option Risk | **-** | **-** | **-** | **33,763** | **33,763** | **2,701** |
| | **52,300,218** | **47,946,697** | **4,858,579** | **2,039,942** | **2,039,942** | **163,196** |
| **Operational Risk** | **-** | **-** | **-** | **4,206,057** | **4,206,057** | **336,485** |
| **Total RWA and Capital Requirement** | **-** | **-** | **-** | **34,264,138** | **34,264,138** | **2,741,133** |

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*

## 37 Capital Adequacy (Cont'd)

**2009** — *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) |
|---|---|---|---|---|---|---|
| *Credit Risk* | | | | | | |
| *On-Balance Sheet Exposures* | | | | | | |
| 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 |
| *Off-Balance Sheet Exposures* | | | | | | |
| 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 |
| *Large Exposures Risk Requirement* | | - | - | - | - | - |
| *Market Risk* | Long Position | Short Position | | | | |
| Interest Rate Risk | 47,252,664 | 45,868,530 | 1,384,134 | 1,469,137 | 1,469,137 | 117,531 |
| Foreign Currency Risk | 36,058 | 17,467 | 36,058 | 36,058 | 36,058 | 2,885 |
| Option Risk | - | - | - | 53,525 | 53,525 | 4,282 |
| | 47,288,722 | 45,885,997 | 1,420,192 | 1,558,720 | 1,558,720 | 124,698 |
| Operational Risk | - | - | - | 4,299,805 | 4,299,805 | 343,984 |
| Total RWA and Capital Requirement | - | - | - | 32,889,025 | 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*

**37 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) |
|---|---|---|---|---|---|---|
| *Credit Risk* | | | | | | |
| *On-Balance Sheet Exposures* | | | | | | |
| 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 |
| *Off-Balance Sheet Exposures* | | | | | | |
| 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 |
| *Large Exposures Risk Requirement* | | - | - | - | - | - |
| *Market Risk* | Long Position | Short Position | | | | |
| Interest Rate Risk | 47,125,278 | 45,868,530 | 1,256,748 | 1,449,249 | 1,449,249 | 115,940 |
| Foreign Currency Risk | 31,288 | 17,467 | 31,288 | 31,288 | 31,288 | 2,503 |
| Option Risk | - | - | - | 53,525 | 53,525 | 4,282 |
| | 47,156,566 | 45,885,997 | 1,288,036 | 1,534,062 | 1,534,062 | 122,725 |
| Operational Risk | - | - | - | 4,161,243 | 4,161,243 | 332,899 |
| Total RWA and Capital Requirement | - | - | - | 30,271,157 | 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*

**37 Capital Adequacy (Cont'd)**

**2010** *Group*

| Risk Weights | Sovereigns & Central Banks | Banks, MDBs and DFIs | Corporates | Regulatory Retail | Residental Mortgages | Higher Risk Assets | Other Assets | Equity | Total Exposures after Netting & Credit Risk Mitigation | Total Risk Weighted Assets |
|---|---|---|---|---|---|---|---|---|---|---|
| | Exposures after Netting and Credit Risk Mitigation | | | | | | | | | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| 0% | 17,816,770 | - | 2,441 | 28,588 | - | - | 209,722 | - | 18,057,521 | - |
| 20% | - | 7,915,005 | 686,075 | 9,844 | - | - | - | - | 8,610,924 | 1,722,184 |
| 35% | - | - | - | - | 10,689,289 | - | - | - | 10,689,289 | 3,741,251 |
| 50% | - | 758,417 | 520,503 | 41,323 | 3,062,461 | - | - | - | 4,382,704 | 2,191,352 |
| 75% | - | - | 167 | 8,194,746 | 1,926,661 | - | - | - | 10,121,574 | 7,591,181 |
| 100% | - | 1,060 | 15,043,656 | 87,445 | 171,226 | - | 701,615 | 27,604 | 16,032,606 | 16,032,606 |
| 150% | - | 33,932 | 99,316 | 131,217 | - | 1,549 | - | - | 266,014 | 399,021 |
| Total Risk Weight | - | - | - | - | - | - | - | - | 68,160,632 | 31,677,595 |
| Average Risk Weight | - | - | - | - | - | - | - | - | 3,786,702 | 1,759,866 |
| Deduction from Capital Base | - | - | - | - | - | - | - | - | - | - |

**2010** *Bank*

| Risk Weights | Sovereigns & Central Banks | Banks, MDBs and DFIs | Corporates | Regulatory Retail | Residental Mortgages | Higher Risk Assets | Other Assets | Equity | Total Exposures after Netting & Credit Risk Mitigation | Total Risk Weighted Assets |
|---|---|---|---|---|---|---|---|---|---|---|
| | Exposures after Netting and Credit Risk Mitigation | | | | | | | | | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| 0% | 16,030,223 | - | 2,441 | 27,186 | - | - | 209,721 | - | 16,269,571 | - |
| 20% | - | 8,382,039 | 685,998 | 9,844 | - | - | - | - | 9,077,881 | 1,815,577 |
| 35% | - | - | - | - | 10,544,140 | - | - | - | 10,544,140 | 3,690,449 |
| 50% | - | 1,300,459 | 498,442 | 41,136 | 2,861,668 | - | - | - | 4,701,705 | 2,350,852 |
| 75% | - | - | 167 | 6,385,989 | 1,738,891 | - | - | - | 8,125,047 | 6,093,786 |
| 100% | - | 1,060 | 12,449,907 | 81,162 | 169,000 | - | 1,011,300 | 27,604 | 13,740,033 | 13,740,033 |
| 150% | - | 33,932 | 73,535 | 109,280 | - | 1,549 | - | - | 218,296 | 327,442 |
| Total Risk Weight | - | - | - | - | - | - | - | - | 62,676,673 | 28,018,139 |
| Average Risk Weight | - | - | - | - | - | - | - | - | 3,482,037 | 1,556,563 |
| 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*

**37 Capital Adequacy (Cont'd)**

**2009** ***Group***

| Risk Weights | Exposures after Netting and Credit Risk Mitigation: Sovereigns & Central Banks RM'000 | Banks, MDBs and DFIs RM'000 | Corporates RM'000 | Regulatory Retail RM'000 | Residental Mortgages RM'000 | Higher Risk Assets RM'000 | Other Assets RM'000 | Equity RM'000 | Total Exposures after Netting & Credit Risk Mitigation RM'000 | Total Risk Weighted Assets 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: Sovereigns & Central Banks RM'000 | Banks, MDBs and DFIs RM'000 | Corporates RM'000 | Regulatory Retail RM'000 | Residental Mortgages RM'000 | Higher Risk Assets RM'000 | Other Assets RM'000 | Equity RM'000 | Total Exposures after Netting & Credit Risk Mitigation RM'000 | Total Risk Weighted Assets 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*

## 38 Commitments and Contingencies

| 2010 | 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 | **1,373,274** | **-** | **1,373,274** | **1,243,087** |
| Transaction-related contingent items | **2,198,080** | **-** | **1,099,040** | **910,741** |
| Short-term self-liquidating trade-related contingencies | **409,577** | **-** | **81,915** | **65,187** |
| Irrevocable commitments to extend credit: | | | | |
| - Maturity not exceeding one year | **9,971,490** | **-** | **-** | **-** |
| - Maturity exceeding one year | **970,034** | **-** | **485,017** | **436,744** |
| Unutilised credit card lines | **7,056,438** | **-** | **1,411,288** | **1,058,466** |
| Foreign exchange related contracts | | | | |
| - Less than one year | **21,304,763** | **249,369** | **420,594** | **248,292** |
| - Over one year to less than five years | **7,035,957** | **364,513** | **877,709** | **522,640** |
| - Over five years | **2,021,628** | **134,092** | **362,855** | **321,171** |
| Interest/profit rate related contracts: | | | | |
| - Less than one year | **6,342,043** | **17,570** | **26,361** | **10,043** |
| - Over one year to less than five years | **25,048,291** | **226,900** | **770,220** | **281,764** |
| - Over five years | **2,049,452** | **46,107** | **191,620** | **53,171** |
| Gold and other precious metals contracts | | | | |
| - Less than one year | **49,303** | **4,707** | **5,238** | **1,047** |
| - Over one year to less than five years | **76,330** | **4,148** | **7,968** | **1,594** |
| Other commodity contracts: | | | | |
| - Less than one year | **1,761** | **93** | **269** | **54** |
| - Over one year to less than five years | **30,523** | **275** | **3,937** | **787** |
| Equity related contracts | | | | |
| - Less than one year | **128,418** | **10,595** | **16,925** | **3,384** |
| - Over one year to less than five years | **1,143,390** | **71,058** | **162,555** | **32,512** |
| - Over five years | **145,076** | **4,282** | **18,790** | **3,758** |
| Sell buy back agreement | **147,534** | **-** | **147,533** | **147,533** |
| | **87,503,362** | **1,133,709** | **7,463,108** | **5,341,975** |
| | | **Note 12** | | |

^ 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 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 amounts are computed using credit conversion factors and risk weighting rules as per Bank Negara Malaysia guidelines. The credit conversion factors and risk weighting rules were based on 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.

## 38 Commitments and Contingencies (Cont'd)

| 2010 | 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 | **1,283,050** | **-** | **1,283,050** | **1,162,259** |
| Transaction-related contingent items | **2,175,732** | **-** | **1,087,866** | **900,940** |
| Short-term self-liquidating trade-related contingencies | **395,150** | **-** | **79,030** | **63,781** |
| Irrevocable commitments to extend credit: | | | | |
| - Maturity not exceeding one year | **9,204,534** | **-** | **-** | **-** |
| - Maturity exceeding one year | **888,816** | **-** | **444,408** | **404,749** |
| Unutilised credit card lines | **6,475,280** | **-** | **1,295,056** | **971,292** |
| Foreign exchange related contracts | | | | |
| - Less than one year | **21,304,763** | **249,369** | **420,594** | **248,292** |
| - Over one year to less than five years | **7,035,957** | **364,513** | **877,709** | **522,640** |
| - Over five years | **2,021,628** | **134,092** | **362,855** | **321,171** |
| Interest rate related contracts: | | | | |
| - Less than one year | **6,342,043** | **17,570** | **26,361** | **10,043** |
| - Over one year to less than five years | **25,048,291** | **226,900** | **770,220** | **281,764** |
| - Over five years | **2,049,452** | **46,107** | **191,620** | **53,171** |
| Gold and other precious metals contracts | | | | |
| - Less than one year | **49,303** | **4,707** | **5,238** | **1,047** |
| - Over one year to less than five years | **76,330** | **4,148** | **7,968** | **1,594** |
| Other commodity contracts: | | | | |
| - Less than one year | **1,761** | **93** | **269** | **54** |
| - Over one year to less than five years | **30,523** | **275** | **3,937** | **787** |
| Equity related contracts | | | | |
| - Less than one year | **115,241** | **5,953** | **11,486** | **2,297** |
| - Over one year to less than five years | **1,037,282** | **64,545** | **147,527** | **29,506** |
| - Over five years | **145,076** | **4,282** | **18,790** | **3,758** |
| | **85,680,212** | **1,122,554** | **7,033,984** | **4,979,145** |
| | | **Note 12** | | |

^ 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 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 amounts are computed using credit conversion factors and risk weighting rules as per Bank Negara Malaysia guidelines. The credit conversion factors and risk weighting rules were based on 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.

## 38 Commitments and Contingencies (Cont'd)

| 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 |
| - Over one year to less than five years | 7,755,321 | 203,458 | 813,501 | 395,224 |
| - Over five years | 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 |
| - Over one year to less than five years | 20,202,471 | 244,668 | 729,983 | 265,587 |
| - Over five years | 2,185,414 | 46,831 | 181,820 | 95,002 |
| Other commodity contracts: | | | | |
| - Less than one year | 64,077 | 454 | 8,143 | 1,629 |
| - Over 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 |
| - Over 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 12 | | |

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

**38 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 |
| - Over one year to less than five years | 7,755,321 | 203,458 | 813,501 | 395,224 |
| - Over five years | 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 |
| - Over one year to less than five years | 20,202,471 | 244,668 | 729,983 | 265,587 |
| - Over five years | 2,185,414 | 46,831 | 181,820 | 95,002 |
| Other commodity contracts: | | | | |
| - Less than one year | 64,077 | 454 | 8,143 | 1,629 |
| - Over one year to less than five years | 36,658 | 1,974 | 6,373 | 1,274 |
| Equity related contracts | | | | |
| - Over one year to less than five years | 967,375 | 85,700 | 161,233 | 32,247 |
| - Over five years | - | - | - | - |
| | 74,087,292 | 743,624 | 6,613,483 | 4,581,985 |
| | | Note 12 | | |

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

## 39 Interest/ Profit Rate Risk

The Group and the Bank are exposed to various risks associated with the effects of fluctuation in the prevailing level of market interest/profit rates on its financial position and cash flows. The following tables 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 2010 | Non-trading book Up to 1 month RM'000 | >1 - 3 months RM'000 | >3 - 12 months RM'000 | 1 - 5 years RM'000 | Over 5 years RM'000 | Non-interest/ profit sensitive RM'000 | Trading book RM'000 | Total RM'000 | Effective interest/ profit rate % |
|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | |
| Cash and short term funds | **9,889,885** | **-** | **-** | **-** | **-** | **1,925,719** | **-** | **11,815,604** | **2.62** |
| Securities purchased under resale agreements | **3,968,170** | **2,499,693** | **-** | **-** | **-** | **-** | **-** | **6,467,863** | **2.77** |
| Deposits and placements with banks and other financial institutions | **-** | **283,436** | **47,545** | **-** | **-** | **-** | **-** | **330,981** | **2.79** |
| Financial assets held-for-trading | **-** | **-** | **-** | **-** | **-** | **-** | **4,895,060** | **4,895,060** | **3.05** |
| Financial investments available-for-sale | **309,692** | **1,242,646** | **521,395** | **1,094,430** | **208,138** | **23,789** | **-** | **3,400,090** | **3.22** |
| Loans, advances and financing | | | | | | | | | |
| - performing | **26,776,972** | **2,836,658** | **967,064** | **1,679,942** | **421,782** | **1,080,503** | **-** | **33,762,921** | **5.44** |
| - impaired * | **-** | **-** | **-** | **-** | **-** | **313,123** | **-** | **313,123** | |
| Others | **-** | **-** | **-** | **-** | **-** | **916,465** | **1,876,827** | **2,793,292** | |
| **Total Assets** | **40,944,719** | **6,862,433** | **1,536,004** | **2,774,372** | **629,920** | **4,259,599** | **6,771,887** | **63,778,934** | |
| **LIABILITIES AND SHAREHOLDERS' FUNDS** | | | | | | | | | |
| Deposits from customers | **23,162,190** | **5,691,096** | **6,629,872** | **2,311,926** | **578,395** | **9,965,945** | **-** | **48,339,424** | **2.00** |
| Deposits and placements of banks and other financial institutions | **4,442,174** | **533,787** | **100,893** | **8,170** | **7,737** | **1,760,287** | **-** | **6,853,048** | **2.18** |
| Bills and acceptances payable | **14,608** | **1,654** | **-** | **-** | **-** | **412,967** | **-** | **429,229** | **2.13** |
| Recourse obligation on loans sold to Cagamas Berhad | **-** | **134,991** | **240,000** | **-** | **-** | **-** | **-** | **374,991** | **4.94** |
| Subordinated bonds | **-** | **-** | **-** | **-** | **1,003,039** | **-** | **-** | **1,003,039** | **4.70** |
| Others | **-** | **-** | **-** | **-** | **-** | **1,250,142** | **1,289,144** | **2,539,286** | |
| **Total Liabilities** | **27,618,972** | **6,361,528** | **6,970,765** | **2,320,096** | **1,589,171** | **13,389,341** | **1,289,144** | **59,539,017** | |
| **Shareholders' funds** | **-** | **-** | **-** | **-** | **-** | **4,239,917** | **-** | **4,239,917** | |
| **Total Liabilities and Shareholders' funds** | **27,618,972** | **6,361,528** | **6,970,765** | **2,320,096** | **1,589,171** | **17,629,258** | **1,289,144** | **63,778,934** | |
| On-balance sheet interest/profit sensitivity gap | **13,325,747** | **500,905** | **(5,434,761)** | **454,276** | **(959,251)** | **(13,369,659)** | **5,482,743** | **-** | |
| Off-balance sheet interest/profit sensitivity gap | | | | | | | | | |
| Interest/profit rate contracts | | | | | | | | | |
| - futures | **-** | **60,000** | **(30,000)** | **(30,000)** | **-** | **-** | **-** | **-** | |
| - options | **(208,308)** | **(160,000)** | **160,000** | **208,308** | **-** | **-** | **-** | **-** | |
| - swaps | **1,111,522** | **(2,548,963)** | **1,013,912** | **(9,613)** | **530,805** | **-** | **-** | **97,663** | |
| **Total interest/profit sensitivity gap** | **14,228,961** | **(2,148,058)** | **(4,290,849)** | **622,971** | **(428,446)** | **(13,369,659)** | **5,482,743** | **97,663** | |

* This is arrived at after deducting individual impairment allowance from impaired loans.

## 39 Interest/ Profit Rate Risk (Cont'd)

| Group<br>2009<br>Restated | Non-trading book<br>Up to<br>1 month<br>RM'000 | >1 - 3<br>months<br>RM'000 | >3 - 12<br>months<br>RM'000 | 1 - 5<br>years<br>RM'000 | Over 5<br>years<br>RM'000 | Non-interest/<br>profit sensitive<br>RM'000 | Trading<br>book<br>RM'000 | Total<br>RM'000 | Effective<br>interest/<br>profit rate<br>% |
|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | |
| Cash and short term funds | 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 |
| Financial assets held-for-trading | - | - | - | - | - | - | 1,282,817 | 1,282,817 | 2.83 |
| Financial investments 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 | - | - | - | - | - | 735,876 | 1,005,839 | 1,741,715 | |
| **Total Assets** | 38,268,743 | 6,447,390 | 1,570,605 | 3,487,623 | 578,467 | 2,496,025 | 2,288,656 | 55,137,509 | |
| **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** | - | - | - | - | - | 3,884,298 | - | 3,884,298 | |
| **Total Liabilities and Shareholders' funds** | 25,427,401 | 3,224,441 | 7,570,048 | 2,174,572 | 1,247,389 | 14,650,872 | 842,786 | 55,137,509 | |
| 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.

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## 39 Interest/ Profit Rate Risk (Cont'd)

| Bank 2010 | Non-trading book Up to 1 month RM'000 | >1 - 3 months RM'000 | >3 - 12 months RM'000 | 1 - 5 years RM'000 | Over 5 years RM'000 | Non-interest sensitive RM'000 | Trading book RM'000 | Total RM'000 | Effective interest rate % |
|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | |
| Cash and short term funds | **8,761,358** | **-** | **-** | **-** | **-** | **1,897,502** | **-** | **10,658,860** | **2.60** |
| Securities purchased under resale agreements | **3,968,170** | **2,499,693** | **-** | **-** | **-** | **-** | **-** | **6,467,863** | **2.77** |
| Deposits and placements with banks and other financial institutions | **47,275** | **749,526** | **654,971** | **20,043** | **-** | **-** | **-** | **1,471,815** | **2.79** |
| Financial assets held-for-trading | **-** | **-** | **-** | **-** | **-** | **-** | **4,747,054** | **4,747,054** | **3.05** |
| Financial investments available-for-sale | **275,189** | **1,242,645** | **521,395** | **798,269** | **208,138** | **23,789** | **-** | **3,069,425** | **3.24** |
| Loans, advances and financing | | | | | | | | | |
| - performing | **24,565,346** | **2,532,287** | **652,480** | **156,605** | **283,842** | **965,037** | **-** | **29,155,597** | **5.03** |
| - impaired* | **-** | **-** | **-** | **-** | **-** | **284,171** | **-** | **284,171** | |
| Others | **-** | **-** | **-** | **-** | **-** | **1,505,973** | **1,832,022** | **3,337,995** | |
| **Total Assets** | **37,617,338** | **7,024,151** | **1,828,846** | **974,917** | **491,980** | **4,676,472** | **6,579,076** | **59,192,780** | |
| **LIABILITIES AND SHAREHOLDERS' FUNDS** | | | | | | | | | |
| Deposits from customers | **21,150,410** | **4,937,585** | **6,216,622** | **2,288,573** | **578,395** | **9,385,324** | **-** | **44,556,909** | **1.99** |
| Deposits and placements of banks and other financial institutions | **4,173,155** | **211,295** | **100,893** | **8,170** | **7,737** | **1,760,286** | **-** | **6,261,536** | **2.25** |
| Bills and acceptances payable | **14,608** | **1,654** | **-** | **-** | **-** | **407,436** | **-** | **423,698** | **2.13** |
| Recourse obligation on loans sold to Cagamas Berhad | **-** | **134,991** | **240,000** | **-** | **-** | **-** | **-** | **374,991** | **4.94** |
| Subordinated bonds | **-** | **-** | **-** | **-** | **1,003,039** | **-** | **-** | **1,003,039** | **4.70** |
| Others | **-** | **-** | **-** | **-** | **-** | **1,179,217** | **1,277,989** | **2,457,206** | |
| **Total Liabilities** | **25,338,173** | **5,285,525** | **6,557,515** | **2,296,743** | **1,589,171** | **12,732,263** | **1,277,989** | **55,077,379** | |
| **Shareholders' funds** | **-** | **-** | **-** | **-** | **-** | **4,115,401** | **-** | **4,115,401** | |
| **Total Liabilities and Shareholders' funds** | **25,338,173** | **5,285,525** | **6,557,515** | **2,296,743** | **1,589,171** | **16,847,664** | **1,277,989** | **59,192,780** | |
| On-balance sheet interest sensitivity gap | **12,279,165** | **1,738,626** | **(4,728,669)** | **(1,321,826)** | **(1,097,191)** | **(12,171,192)** | **5,301,087** | **-** | |
| Off-balance sheet interest sensitivity gap | | | | | | | | | |
| Interest rate contracts | | | | | | | | | |
| - futures | **-** | **60,000** | **(30,000)** | **(30,000)** | **-** | **-** | **-** | **-** | |
| - options | **(208,308)** | **(160,000)** | **160,000** | **208,308** | | **-** | **-** | **-** | |
| - swaps | **1,111,522** | **(2,548,963)** | **1,013,912** | **(9,613)** | **530,805** | **-** | **-** | **97,663** | |
| **Total interest sensitivity gap** | **13,182,379** | **(910,337)** | **(3,584,757)** | **(1,153,131)** | **(566,386)** | **(12,171,192)** | **5,301,087** | **97,663** | |

* This is arrived at after deducting individual impairment allowance from impaired loans.

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## 39 Interest/ Profit Rate Risk (Cont'd)

| Bank<br>2009<br>Restated | Non-trading book<br>Up to<br>1 month<br>RM'000 | >1 - 3<br>months<br>RM'000 | >3 - 12<br>months<br>RM'000 | 1 - 5<br>years<br>RM'000 | Over 5<br>years<br>RM'000 | Non-interest<br>sensitive<br>RM'000 | Trading<br>book<br>RM'000 | Total<br>RM'000 | Effective<br>interest<br>rate<br>% |
|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | |
| Cash and short term funds | 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 |
| Financial assets held-for-trading | - | - | - | - | - | - | 1,155,431 | 1,155,431 | 3.03 |
| Financial investments 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 loans * | - | - | - | - | - | 256,377 | - | 256,377 | |
| Others | - | - | - | - | - | 1,336,356 | 994,941 | 2,331,297 | |
| **Total Assets** | 36,674,610 | 6,147,871 | 2,320,340 | 2,044,020 | 415,213 | 3,012,068 | 2,150,372 | 52,764,494 | |
| **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** | - | - | - | - | - | 3,803,654 | - | 3,803,654 | |
| **Total Liabilities and Shareholders' funds** | 23,973,740 | 2,840,907 | 7,151,826 | 2,172,953 | 1,247,389 | 14,545,130 | 832,549 | 52,764,494 | |
| 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.

## 40 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.

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Carrying amount of assets pledged as collateral** | | | | |
| - Collateral pledged for repurchase agreements | **147,534** | 165,757 | **-** | - |
| **Fair value of assets accepted as collateral and collateral sold/ repledged** | | | | |
| - Collateral accepted for reverse repurchase agreement | **6,467,863** | 6,780,923 | **6,467,863** | 6,780,923 |
| - Collateral sold | **179,516** | 98,544 | **179,516** | 98,544 |

## 41 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.

| | *Group* | | | |
|---|---|---|---|---|
| | **2010 Carrying amount RM'000** | **2010 Fair Value RM'000** | 2009 Carrying amount RM'000 | 2009 Fair Value RM'000 |
| **Financial Assets** | | | | |
| Cash and short term funds | **11,815,604** | **11,815,604** | 11,709,558 | 11,709,558 |
| Securities purchased under resale agreements | **6,467,863** | **6,467,863** | 6,780,923 | 6,780,923 |
| Deposits and placements with banks and other financial institutions | **330,981** | **330,981** | 142,812 | 142,812 |
| Financial Assets Held-for-Trading | **4,895,060** | **4,895,060** | 1,282,817 | 1,282,817 |
| Financial Investments Available-for-Sale | **3,400,090** | **3,400,090** | 4,855,892 | 4,858,355 |
| Loans, advances and financing | **34,076,044** | **34,079,749** | 28,623,792 | 28,818,061 |
| **Financial Liabilities** | | | | |
| Deposits from customers | **48,339,424** | **47,836,879** | 44,686,358 | 44,189,010 |
| Deposits and placements of banks and other financial institutions | **6,853,048** | **6,851,523** | 2,819,638 | 2,819,617 |
| Bills and acceptances payable | **429,229** | **429,229** | 311,616 | 311,616 |
| Recourse obligation on loans sold to Cagamas Berhad | **374,991** | **379,760** | 575,511 | 569,222 |
| Subordinated bonds | **1,003,039** | **991,786** | 1,000,385 | 1,044,533 |

## 41 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.

| | *Bank* | | | |
|---|---|---|---|---|
| | **2010 Carrying amount RM'000** | **2010 Fair Value RM'000** | 2009 Carrying amount RM'000 | 2009 Fair Value RM'000 |
| **Financial Assets** | | | | |
| Cash and short term funds | **10,658,860** | **10,658,860** | 11,480,483 | 11,480,483 |
| Securities purchased under resale agreements | **6,467,863** | **6,467,863** | 6,780,923 | 6,780,923 |
| Deposits and placements with banks and other financial institutions | **1,471,815** | **1,471,815** | 1,085,869 | 1,085,869 |
| Financial Assets Held-for-Trading | **4,747,054** | **4,747,054** | 1,155,431 | 1,155,431 |
| Financial Investments Available-for-Sale | **3,069,425** | **3,069,425** | 4,471,672 | 4,474,135 |
| Loans, advances and financing | **29,439,768** | **29,463,378** | 25,458,819 | 25,712,769 |
| **Financial Liabilities** | | | | |
| Deposits from customers | **44,556,909** | **44,056,270** | 42,213,968 | 41,704,853 |
| Deposits and placements of banks and other financial institutions | **6,261,536** | **6,261,492** | 2,710,022 | 2,710,001 |
| Bills and acceptances payable | **423,698** | **423,698** | 308,318 | 308,318 |
| Recourse obligation on loans sold to Cagamas Berhad | **374,991** | **379,760** | 575,511 | 569,222 |
| Subordinated bonds | **1,003,039** | **991,786** | 1,000,385 | 1,044,533 |

## 41 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.

**Financial Assets Held-for-Trading and Financial Investments Available-for-Sale**

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.

Please see note 3g(vi) for fair value measurements of all other financial instruments.

**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 impaired loans/financing, the fair value is the carrying value of the loans/financing, net of individual impairment allowance. Collective impairment allowance is deducted from the fair value of loans, advances and financing.

**Deposits from customers**
**Deposits and placements 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 principal values of some financial instruments are not recognised in the statements of financial position but the fair values of these financial instruments are recognised in the statements of financial position as at each reporting date. Their fair values are disclosed in Notes 12 and 21 of the financial statements. The principal or contractual amounts are disclosed in Note 38 of the financial statements.

**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.

## 42 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:

| | *Group* | *Bank* |
|---|---|---|
| **Year** | **RM'000** | **RM'000** |
| Less than one year | **32,305** | **27,630** |
| Between one and three years | **35,624** | **33,203** |
| Between three and five years | **21,768** | **21,768** |
| More than five years | **10,714** | **10,714** |
| | **100,411** | **93,315** |

## 43 Capital Commitments

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Capital expenditure commitments: | | | | |
| <u>Property and equipment</u> | | | | |
| - Authorised and contracted for | **14,921** | 5,869 | **13,883** | 1,834 |
| - Authorised but not contracted for | **6,128** | 4,166 | **6,128** | 2,158 |
| | **21,049** | 10,035 | **20,011** | 3,992 |

## 44 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 | **2010 Number ('000)** | **Weighted average exercise price £** | 2009 Number ('000) | Weighted average exercise price £ |
|---|---|---|---|---|
| Outstanding at 1 January | **1,612** | **6.91** | 1,643 | 7.88 |
| Exercised in the year | **-** | **-** | - | - |
| Lapsed in the year | **-** | **-** | (31) | 7.12 |
| Outstanding at 31 December | **1,612** | **6.91** | 1,612 | 6.91 |
| Options vested at 31 December | **-** | | - | |

| | **2010 RM'000** | 2009 RM'000 |
|---|---|---|
| Compensation cost recognised /(written back) during the year | **110** | (244) |

**Bank**

| Year | **2010 Number ('000)** | **Weighted average exercise price £** | 2009 Number ('000) | Weighted average exercise price £ |
|---|---|---|---|---|
| Outstanding at 1 January | **1,612** | **6.91** | 1,643 | 7.88 |
| Exercised in the year | **-** | **-** | - | - |
| Lapsed in the year | **-** | **-** | (31) | 7.12 |
| Outstanding at 31 December | **1,612** | **6.91** | 1,612 | 6.91 |
| Options vested at 31 December | **-** | | **-** | |

| | **2010 RM'000** | 2009 RM'000 |
|---|---|---|
| Compensation cost recognised /(written back) during the year | **110** | (244) |

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.

## 44 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 | **2010 Number ('000)** | **Weighted average exercise price £** | 2009 Number ('000) | Weighted average exercise price £ |
|---|---|---|---|---|
| Outstanding at 1 January | **5,686** | **3.92** | 2,593 | 6.87 |
| Granted in the year | **423** | **5.46** | 4,889 | 3.31 |
| Exercised in the year | **(642)** | **3.70** | (170) | 7.24 |
| Lapsed in the year | **(451)** | **3.56** | (1,565) | 6.55 |
| Other transfers | **-** | **-** | (61) | 3.38 |
| Outstanding at 31 December | **5,016** | **4.11** | 5,686 | 3.92 |
| Options vested at 31 December | **-** | | 168 | |

| | **2010 RM'000** | 2009 RM'000 |
|---|---|---|
| Compensation cost recognised during the year | **11,241** | 14,446 |

**Bank**

| Year | **2010 Number ('000)** | **Weighted average exercise price £** | 2009 Number ('000) | Weighted average exercise price £ |
|---|---|---|---|---|
| Outstanding at 1 January | **5,642** | **3.93** | 2,580 | 6.87 |
| Granted in the year | **415** | **5.46** | 4,848 | 3.31 |
| Exercised in the year | **(638)** | **3.70** | (169) | 7.24 |
| Lapsed in the year | **(442)** | **3.56** | (1,556) | 6.55 |
| Other transfers | **-** | **-** | (61) | 3.38 |
| Outstanding at 31 December | **4,977** | **4.12** | 5,642 | 3.93 |
| Options vested at 31 December | **-** | | 168 | |

| | **2010 RM'000** | 2009 RM'000 |
|---|---|---|
| Compensation cost recognised during the year | **11,076** | 14,331 |

## 44 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 | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010 Number ('000)** | 2009 Number ('000) | **2010 Number ('000)** | 2009 Number ('000) |
| Outstanding at 1 January | **89** | 126 | **89** | 126 |
| Additions during the year | **358** | 5 | **358** | 5 |
| Released in the year | **-** | (42) | **-** | (42) |
| Outstanding at 31 December | **447** | 89 | **447** | 89 |
| | **2010 RM'000** | 2009 RM'000 | **2010 RM'000** | 2009 RM'000 |
| Compensation cost recognised during the year | **6,934** | 2,654 | **6,907** | 2,654 |

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan is £6.87 (2009: £7.28). The closing price of the HSBC share at 31 December 2010 was £6.51 (2008: £7.09). The weighted average remaining vesting period as at 31 December 2010 was 2.73 years (2009: 1.94 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 | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **2010 Number ('000)** | 2009 Number ('000) | **2010 Number ('000)** | 2009 Number ('000) |
| Outstanding at 1 January | **259** | 348 | **259** | 348 |
| Released in the year | **(112)** | (83) | **(112)** | (83) |
| Lapsed in the year | **(25)** | (6) | **(25)** | (6) |
| Outstanding at 31 December | **122** | 259 | **122** | 259 |
| | **2010 RM'000** | 2009 RM'000 | **2010 RM'000** | 2009 RM'000 |
| Compensation cost recognised during the year | **2,671** | 5,235 | **2,671** | 5,235 |

The weighted average purchase price for all shares purchased by HSBC for awards under the Achievement Shares Award is £8.29 (2009: £8.61). The closing price of the HSBC share at 31 December 2010 was £6.51 (2009: £7.09). The weighted average remaining vesting period as at 31 December 2010 was 1.00 years (2009: 1.47 years).

## 45 Comparative Figures

**Restatement of Comparative Figures**

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

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

Condensed Statement of Financial Position as at 31 Dec 2009
(previously referred to as balance sheet)

a) Loans, advances and financing

| | Group | | Bank | |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| | As restated | As previously stated | As restated | As previously stated |
| **By type** | | | | |
| Term Loans | | | | |
| Housing loans / financing | 9,591,757 | 9,574,369 | 9,507,684 | 9,490,296 |
| Other term loans/ financing | 8,882,984 | 8,881,017 | 6,582,449 | 6,580,482 |
| Staff loans/ financing | 380,338 | 399,693 | 377,443 | 396,798 |
| **By type of customer** | | | | |
| Individuals | 15,141,707 | 15,676,524 | 13,868,492 | 14,403,309 |
| Foreign entities | 1,315,902 | 781,085 | 1,237,422 | 702,605 |
| **By sector** | | | | |
| Manufacturing | 5,832,326 | 5,169,080 | 5,043,494 | 4,385,835 |
| Purchase of landed property: | | | | |
| Residential | - | 9,975,127 | - | 9,897,146 |
| Non-residential | - | 1,005,847 | - | 998,510 |
| Purchase of securities | - | 46,303 | - | 44,947 |
| Purchase of transport vehicles | - | 50,930 | - | 50,423 |
| Consumption credit | - | 5,577,650 | - | 4,376,167 |
| Household-retail | 15,967,891 | - | 14,684,813 | - |
| Others | 963,468 | 938,748 | 855,285 | 830,564 |
| **By purpose** | | | | |
| Purchase of fixed assets excluding land & building | 235,009 | - * | - | -* |
| Working capital | 11,324,636 | 11,559,645* | 9,722,493 | 9,722,493* |

* Comparative figures as disclosed in the unaudited condensed interim financial statements as at 31 March 2010.

**45 Comparative Figures (Cont'd)**

**Restatement of Comparative Figures (Cont'd)**

Statement of comprehensive income for the financial year ended 31 December 2009
(previously referred to as income statement)

| | Group | | Bank | |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| | As restated | As previously stated | As restated | As previously stated |
| **Year-To-Date** | | | | |
| b) Interest income | | | | |
| Loans and advances | | | | |
| - Interest income other than from impaired loans | 1,321,220 | 1,344,773 | 1,321,220 | 1,344,773 |
| - Interest income recognised from impaired loans | 31,164 | 31,164 | 31,164 | 31,164 |
| Money at call and deposit placements with financial institutions | 282,525 | 282,525 | 306,855 | 285,889 |
| Financial investments available-for-sale | 116,515 | 115,105 | 116,515 | 115,105 |
| Fair value hedge derivative assets | 6,869 | - | 6,869 | - |
| Others | - | 24,377 | - | 45,343 |
| | 1,758,293 | 1,797,944 | 1,782,623 | 1,822,274 |
| Amortisation of premium less accretion of discounts | - | (16,098) | - | (16,098) |
| Interest suspended | - | (23,553) | - | (23,553) |
| Total interest income | 1,758,293 | 1,758,293 | 1,782,623 | 1,782,623 |
| | | | | |
| **Year-To-Date** | | | | |
| c) Net fee and commission income* | | | | |
| Fee and commission income | 426,559 | - | 426,559 | - |
| Fee and commission expense | (25,734) | - | (25,734) | - |
| Net fee and commission income | 400,825 | - | 400,825 | - |

* Net fee and commission income were previously classified separately as components of other operating income and other operating expenses.

| | Group | | Bank | |
|---|---|---|---|---|
| | As restated | As previously stated | As restated | As previously stated |
| **Year-To-Date** | | | | |
| d) Other operating income | | | | |
| Fees and commissions* | - | 405,813 | - | 405,813 |
| Net gains arising from sale of securities | | | | |
| - Securities held-for-trading and other financial instruments** | - | 10,043 | - | 10,043 |
| - Securities available-for-sale | 28,438 | 28,438 | 28,438 | 28,438 |
| Net interest income from trading securities** | - | 56,248 | - | 56,248 |
| Net unrealised gains on revaluation of trading securities** | - | 11,199 | - | 11,199 |
| Net gains arising from dealing in foreign currency** | - | 351,301 | - | 351,301 |
| Net unrealised losses from dealing in foreign currency** | - | (30,123) | - | (30,123) |
| Net gains arising from trading in derivatives^ | - | 116 | - | 116 |
| Net unrealised gains on revaluation of derivatives** | - | 36,253 | - | 36,253 |
| Dividend income from securities available-for-sale | | | | |
| - Unquoted in Malaysia | 1,195 | 1,753 | 1,195 | 1,753 |
| - Quoted outside Malaysia | 558 | - | 558 | - |
| Rental income | 6,955 | 6,955 | 6,955 | 6,955 |
| Net downwards revaluation on property | (28) | (28) | (28) | (28) |
| Net gains on disposal of property and equipment | 312 | 312 | 312 | 312 |
| Other operating income^^ | 29,209 | 28,848 | 108,057 | 107,696 |
| | 66,639 | 907,128 | 145,487 | 985,976 |

* Now classified under net fee and commission income
** Now classified under net trading income

| | | Group & Bank |
|---|---|---|
| ^ Amount reclassified to net trading income | | (116) |
| ^^ Amount reclassified to net trading income | | 361 |
| | Note 45 e) | 245 |

## 45 Comparative Figures (Cont'd)

**Restatement of Comparative Figures (Cont'd)**

Statement of comprehensive income for the financial year ended 31 December 2009
(previously referred to as income statement)

| | Group | | Bank | |
|---|---|---|---|---|
| **Year-To-Date** | As restated | As previously stated | As restated | As previously stated |
| e) Net Trading income* | | | | |
| Financial assets held-for-trading and other financial instruments | 10,043 | - | 10,043 | - |
| Net interest income from financial assets held-for-trading | 56,248 | - | 56,248 | - |
| Net unrealised gains on revaluation of financial assets held-for-trading | 11,199 | - | 11,199 | - |
| Net gains arising from dealing in foreign currency | 351,301 | - | 351,301 | - |
| Net unrealised losses from dealing in foreign currency | (30,123) | - | (30,123) | - |
| Net losses arising from trading in derivatives^ | (358) | - | (358) | - |
| Net unrealised gains on revaluation of derivatives | 36,253 | - | 36,253 | - |
| Gains arising from fair value hedges^^ | 113 | - | 113 | - |
| | 434,676 | - | 434,676 | - |

* Net trading income were previously reported under other operating income.

| | | Group & Bank |
|---|---|---|
| ^ Amount reclassified from other operating income | | (358) |
| ^^ Amount reclassified from other operating income | | 113 |
| | Note 45 d) | (245) |

| | Group | | Bank | |
|---|---|---|---|---|
| **Year-To-Date** | As restated | As previously stated | As restated | As previously stated |
| f) Income from Islamic Banking | | | | |
| Income derived from investment of depositor funds and others | 248,760 | 248,760 | - | - |
| Income derived from investment of shareholders funds* | 72,445 | 73,421 | - | - |
| Income attributable to the depositors | (50,985) | (50,985) | - | - |
| Income from Islamic Banking operations | 270,220 | 271,196 | - | - |

*Fee and commission expenses/recoveries previously classified under general administrative expenses ( refer Note 45(g) ) are now classified as net finance income under income from investment of shareholder funds.

| | Group | | Bank | |
|---|---|---|---|---|
| **Year-To-Date** | As restated | As previously stated | As restated | As previously stated |
| g) Other operating expenses | | | | |
| Personnel expenses | 541,271 | 541,271 | 525,422 | 525,422 |
| Promotion and marketing related expenses | 72,626 | 72,626 | 56,864 | 56,864 |
| Establishment related expenses | 122,881 | 122,881 | 115,162 | 115,162 |
| General administrative expenses* | 305,069 | 311,033 | 302,225 | 307,213 |
| | 1,041,847 | 1,047,811 | 999,673 | 1,004,661 |

*Fee and commission expenses/recoveries classified under general administrative expenses are now reclassified to net fee and commission income/income from Islamic Banking.