

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

**FINANCIAL STATEMENTS – 31 DECEMBER 2008**

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

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

**CONTENTS**

---

1	Board of Directors
2	Profile of Directors
5	Board Responsibility and Oversight <i>Board of Directors</i> <i>Board Committees</i>
21	Management Reports
22	Internal Audit and Internal Control Activities
23	Risk Management
28	Rating by External Rating Agencies
29	Directors' Report
37	Directors' Statement
38	Statutory Declaration
39	Report of the Auditors
41	Balance Sheets
42	Income Statements
43	Statements of Changes in Equity
45	Cash Flow Statements
47	Notes to the Financial Statements

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

**BOARD OF DIRECTORS**

---

Alexander Andrew Flockhart, *non-executive Chairman*

Irene Mitchell Dorner, *Deputy Chairman and Chief Executive Officer*

Ian Douglas Francis Ogilvie, *executive Director and Deputy Chief Executive Officer*  
*(Resigned on 16 October 2008)*

Jonathan William Addis, *executive Director and Deputy Chief Executive Officer*  
*(Appointed on 22 October 2008)*

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

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

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

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

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

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

Ching Yew Chye, *independent non-executive Director*  
*(Appointed on 22 October 2008)*

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

**PROFILE OF DIRECTORS**

---

**Alexander Andrew Flockhart**, non-executive Chairman

Age 57. Mr Flockhart is Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited (“HSBCL”) and Global Head of Commercial Banking. As Group Managing Director Asia-Pacific, Mr Flockhart is a member of the HSBC Group Management Board. He is also a director of HSBC Bank Australia Limited and a non-executive director of HSBC Bank (China) Company Limited and Hang Seng Bank.

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

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

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

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

**Irene Mitchell Dorner**, Deputy Chairman and Chief Executive Officer

Age 54. Ms Dorner graduated from St. Anne’s College Oxford with MA in Jurisprudence in 1976. A Barrister by profession, Ms Dorner first joined the banking industry as an in-house lawyer.

In 1982, she was the in-house lawyer of Samuel Montagu & Co Limited, the merchant banking arm of Midland Bank, which was later acquired by the HSBC Group. She was appointed the Chief Operating Officer of Treasury and Capital Markets of HSBC Midland in 1995, then went on to head Treasury and Capital Markets Sales in 1998. In 1999, she was appointed General Manager, Marketing of HSBC Bank plc, and was subsequently appointed as General Manager, Human Resources in 2001. She then had the responsibility for HSBC Bank plc’s branch network in the North of England, Scotland and Northern Ireland comprising some 380 branches and 3,900 staff from 2003 to 2006. Thereafter, she held the post of General Manager, Premier and Wealth Management of HSBC Bank plc until May 2007.

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

Age 49. He graduated from Downing College Cambridge in 1980 and joined HSBC as an International Officer Management Trainee in 1981. Since then, he has held various positions within the HSBC Group in the Middle East, Europe, North America and Asia.

In 1998, he was appointed Senior Vice President, Trade Services, HSBC New York and was responsible for the business development and operational management of the Trade Services including the successful integration of the Trade Finance departments of Marine Midland Bank and Republic National Bank of New York as a result of acquisitions. In 2001, he was appointed Head of Group Financial Business Training, responsible for the development and delivery of HSBC’s financial training on a worldwide basis. Thereafter, he assumed the position of Head of Group Internal Audit in Hong Kong which encompassed direct management of inspection teams tasked with assessing HSBC’s businesses throughout the Asia Pacific region. In 2006, he was appointed Chief Operating Officer of HSBC Hong Kong until October 2008. Mr Addis was appointed Executive Director and Deputy Chief Executive Officer of HSBC Bank Malaysia Berhad on 22 October 2008.

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

*Profile of Directors (Cont'd)*

---

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

Age 74. Served as an executive Director and Adviser of HSBC Bank Malaysia Berhad for 15 years, before being appointed a non-executive Director in 2004. He graduated from the Royal Air Force College, Cranwell, England in 1958 and the Royal College of Defence Studies, London in 1973 and had served both with the Royal Air Force and the Royal Malaysian Air Force. He was the first Malaysian to be appointed as the Royal Malaysian Air Force Chief (1967-1976). He served as an Adviser of Bank Negara Malaysia (1977-1983), Commercial Director of Kumpulan Guthrie (1983-1989) and Deputy Chairman of Malaysia Airlines System (1977-2001). Currently, he also sits on the board of FACB Industries Berhad, Nationwide Express Courier Services Berhad and Cycle & Carriage Bintang Berhad.

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

Age 64. He graduated from Eton College and obtained a MA from Cambridge University. He is a former Council Member of the Incorporated Society of Planters and Honorary Secretary of the Heritage Trust of Malaysia. He is a Director of Sime Darby Berhad (formerly known as Synergy Drive Berhad) and The International and Commonwealth University of Malaysia Berhad. He was formerly Joint Managing Director of Highland and Lowlands Para Rubber Co. Ltd., being instrumental in the company's Malaysianisation process in the late 1970s and early 1980s. Dato' Barlow is a Fellow of The Institute of Chartered Accountants, England and Wales, and a keen environmentalist.

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

Age 68. Datuk Ramli is a Chartered Accountant from the Institute of Chartered Accountants of Australia. He is currently non-executive Director of several other public listed and unlisted companies, including MEASAT Global Berhad, Ranhill Berhad and BCT Technology Berhad. He is also a Director of Aeon Company (M) Berhad and Aeon Credit Service (M) Berhad. He was formerly Senior Partner of KPMG Peat Marwick Malaysia (now known as KPMG Malaysia) and executive Chairman of Kuala Lumpur Options and Financial Futures Exchange Berhad.

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

Age 64. Datuk Dr Zainal holds a Bsc (Econ) from Queen's University, Belfast, Northern Ireland, MA (Development Economics) from University of Leicester, United Kingdom and Ph.D. (Economics) from Oxford University, United Kingdom. He was attached to the Economic Planning Unit of the Prime Minister's Department from 1969 to 1988. During the 1987-1988 academic year, he was a Visiting Scholar at the Harvard Institute for International Development (HIID), Harvard University (Fulbright Scholar). He has also served as a Deputy Executive Director of the Malaysian Institute of Economic Research (MIER) from 1988 to 1990. Prior to that, he was the South East Asia Regional Economist at Kleinwort Benson Research (Malaysia) Sdn Bhd.

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

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

*Profile of Directors (Cont'd)*

---

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

Age 68. Prof. Emeritus Dr Mohamed Ariff obtained his B.A. First Class Honours and M.Ec. from the University of Malaya. He completed his Ph.D. program at the University of Lancaster, England in 1971, on a Commonwealth Scholarship.

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

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

Age 49. Appointed on 18 October 2004. She is currently a Director and Chairman of the Finance Board of FAMA (Federal Agricultural Marketing Authority) and a Director of Universiti Utara Malaysia, NCB Holdings Berhad and Kenanga Unit Trust Berhad. She has recently been appointed as a Director of Northport (M) Berhad. She was previously President and Chief Executive of Affin Merchant Bank Berhad for four years until September 2003. Prior to that, she served at OCBC Bank (Malaysia) Berhad in various capacities for ten years. A lawyer by training, she obtained her LLB from the University of Buckingham, Britain in 1984. She sits on various State Government Investment Committees, Boards and Advisory Panels such as Melaka State Government Investment Committee and Kedah State Government Insurance Brokers. She is also a member of the Association of Bumiputra Business and Professional Women, Malaysia. Currently she serves as an adviser to the National Cancer Society of Malaysia.

**Ching Yew Chye**, independent non-executive Director

Age 55. Appointed on 22 October 2008, Mr Ching graduated from the University of London in Computer Science and began his career with Robert Horne Group of Companies in Northampton, England in 1977 as an IT and Management Trainee. In 1982, he joined Accenture in London before returning to Accenture in Malaysia in 1983. He retired from Accenture as Senior Partner in 2007.

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

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

Mr Ching is currently a Director of Avenue Invest Berhad.

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

**BOARD RESPONSIBILITY AND OVERSIGHT**

---

**BOARD OF DIRECTORS**

**Composition of the Board**

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

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

There is a clear division of responsibilities at the head of the Bank to ensure a balance of authority and power. The Board is led by Mr Alexander Andrew Flockhart as the non-executive Chairman and the executive management of the Bank is led by Ms Irene Mitchell Dorner, 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.

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

*Board Responsibility and Oversight (Cont'd)*

---

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

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

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

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

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

The attendance of Directors at the Board meetings held in the financial year ended 31 December 2008 was as follows:

Name of members	Independent/ Non-Independent	Attendance and number of meetings
Alexander Andrew Flockhart	Chairman, non-independent non-executive Director	6 / 6
Irene Mitchell Dorner	Deputy Chairman and Chief Executive Officer	6 / 6
Jonathan William Addis	Executive Director and Deputy Chief Executive	1 / 6 *
Ian Douglas Francis Ogilvie	Executive Director and Deputy Chief Executive	5 / 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	6 / 6
Datuk Dr Zainal Aznam bin Mohd Yusof	Independent non-executive Director	5 / 6
Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem	Independent non-executive Director	6 / 6
Dato' Zuraidah binti Atan	Independent non-executive Director	6 / 6
Ching Yew Chye	Independent non-executive Director	1 / 6 *

\* Appointed on 22 October 2008

\*\* Resigned on 16 October 2008



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

*Board Responsibility and Oversight (Cont'd)*

---

**BOARD COMMITTEES**

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

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

**Board Committees**

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

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

**Management Committees**

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

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

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

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

*Board Responsibility and Oversight (Cont'd)*

---

**AUDIT COMMITTEE**

**Membership**

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

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

**Meetings**

A total of four (4) Audit Committee meetings were held during the financial year. The attendance of the Directors at the Audit Committee meetings held in 2008 was as follows:

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

**Terms of Reference**

The Terms of Reference were approved at the meeting of the Board on 27 March 2007.

**Membership**

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

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

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

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

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

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

*Board Responsibility and Oversight (Cont'd)*

---

**AUDIT COMMITTEE (Cont'd)**

**Meetings and Quorum**

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

The quorum for meetings shall be two Directors.

**Objective**

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

**Responsibilities of the Committee**

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

1. To monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance, 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; and
  - (vi) compliance with applicable listing and other legal requirements in relation to financial reporting.

In regard to the above:

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

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

*Board Responsibility and Oversight (Cont'd)*

---

**AUDIT COMMITTEE (Cont'd)**

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

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

*Board Responsibility and Oversight (Cont'd)*

---

**AUDIT COMMITTEE (Cont'd)**

10. To discuss with the external auditor their general approach, nature and scope of their audit and reporting obligations before the audit commences including, in particular, the nature of any significant unresolved accounting and auditing problems and reservations arising from their interim reviews and final audits, major judgemental areas (including all critical accounting policies and practices used by the 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 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 compliance policy and the relevant regulatory and legal requirements in each of the markets where the Company is represented and whether management has discharged its duty to have an effective internal control system.
12. To consider any findings of major investigations of internal control matters as delegated by the Board or on the Committee's initiative and management's response.
13. To receive an annual report, and other reports from time to time as may be required by applicable laws and regulations, from the principal executive officer and principal financial officer to the effect that such persons have disclosed to the Committee and to the external auditor all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which could adversely affect the 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.
14. To review such information as the Disclosure Committee (if any) may request (including reports and minutes of the Disclosure Committee) from time to time.
15. To provide to the Board such assurances as it may reasonably require regarding compliance by the 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.
16. To provide to the Board such additional assurance as it may reasonably require regarding the reliability of financial information submitted to it.
17. To receive from the Compliance function reports on the treatment of substantiated complaints regarding accounting, internal accounting controls or auditing matters received through the Group Disclosure Line (or such other system as the Group Audit Committee may approve) for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

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

*Board Responsibility and Oversight (Cont'd)*

---

**AUDIT COMMITTEE (Cont'd)**

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

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

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

*Board Responsibility and Oversight (Cont'd)*

---

**RISK MANAGEMENT COMMITTEE**

**Membership**

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

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

**Meetings**

A total of four (4) Risk Management Committee meetings were held during the financial year. The attendance of the Directors at the Risk Management Committee meetings held in 2008 was as follows:

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

**Terms of Reference**

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

Membership

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

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

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

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

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

*Board Responsibility and Oversight (Cont'd)*

---

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

Meetings and Quorum

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

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

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

Objective

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

Responsibilities of the Committee

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



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

*Board Responsibility and Oversight (Cont'd)*

---

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

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

Written or Circulating Resolution

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

Amendment

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

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

*Board Responsibility and Oversight (Cont'd)*

---

**NOMINATING COMMITTEE**

**Membership**

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

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

**Meetings**

One meeting was held during the financial year. The attendance of the Directors at the Nominating Committee meetings held in 2008 was as follows:

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

**Terms of Reference**

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

Membership

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

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

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

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

*Board Responsibility and Oversight (Cont'd)*

---

**NOMINATING COMMITTEE (Cont'd)**

Meetings and Quorum

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

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

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

Objective

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

Responsibilities of the Committee

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

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

*Board Responsibility and Oversight (Cont'd)*

---

**NOMINATING COMMITTEE (Cont'd)**

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

Written or Circulating Resolution

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

Amendment

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

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

*Board Responsibility and Oversight (Cont'd)*

---

**CONNECTED PARTY TRANSACTIONS COMMITTEE**

**Membership**

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

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

**Objective**

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

**Terms of Reference**

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

Composition and Quorum

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

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

The CCO 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 CCO, or in his absence, his delegate.

Meetings

There is no requirement for meetings to be held.

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

*Board Responsibility and Oversight (Cont'd)*

---

**CONNECTED PARTY TRANSACTIONS COMMITTEE (Cont'd)**

Powers Delegated by the Board

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

The exercise of the above authority by the Committee shall be subject to HBMY'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

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

**MANAGEMENT REPORTS**

---

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

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

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

**INTERNAL AUDIT AND INTERNAL CONTROL ACTIVITIES**

---

It is the responsibility of management at all levels to ensure that effective internal controls are in place for all the operations for which they are responsible. 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 or fraud. These are monitored by the Asset and Liability Management Committee (ALCO), the Executive Committee (EXCO), the Operational Risk Committee, the Audit Committee, the Risk Management Committee and the Board of Directors.

Responsibilities for financial performance against plans and for capital expenditure, credit exposures and market risk exposures are delegated within limits to line management. 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 the internal audit reports functionally to the Audit Committee and the Head of HSBC Group Audit Asia Pacific and administratively to the Chief Executive Officer.

The Audit Committee has kept under review the effectiveness of this system of internal control and has reported regularly to the Board of Directors. The 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 cover 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 Group'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.



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

**RISK MANAGEMENT**

---

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

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

The Executive Committee, Risk Management Committee 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.

**Credit risk management**

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

A Credit and Risk Management structure under the Chief Credit 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 Credit Officer has a functional reporting line to the HSBC Group General Manager, Group Credit and Risk.

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 high quality where risk and return are commensurate. Reports are produced for Executive Committee, Risk Management Committee and the Board, covering:

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

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

*Risk Management (Cont'd)*

---

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

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

Individual accounts are reviewed to ensure that risk grades are appropriate, that credit and collection procedures have been properly followed and that, where an account evidences deterioration, impairment allowances are raised in accordance with the HSBC Group's established processes. 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.

**Liquidity and funding management**

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

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

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

The Group's liquidity and funding management process includes:

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

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

*Risk Management (Cont'd)*

---

**Market risk management**

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

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

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

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

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

Market risk in non-trading portfolios arises principally from mismatches between the future yields on assets and their funding cost as a result of interest 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 rate risk of the products and hence are subject to scrutiny from ALCO, the regional head office and TMR. The net exposure is monitored against the limits granted by TMR for the respective portfolios and, depending on the view on future market movement, economically hedged with the use of financial instruments within agreed limits.

*Value at risk ('VAR')*

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

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

*Risk Management (Cont'd)*

---

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

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

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

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

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

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

**Operational risk management**

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

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

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

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

*Risk Management (Cont'd)*

---

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

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

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

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

**RATING BY EXTERNAL RATING AGENCIES**

---

Details of the Bank's ratings are as follows:

<b>Rating Agency</b>	<b>Date</b>	<b>Rating Classification</b>	<b>Rating Received</b>
Moody's Investors Service	Dec 2008	- Financial strength rating - Local currency deposits - Foreign currency deposits - Outlook	C- Aa3 A3 Stable
Rating Agency Malaysia Berhad	June 2008	- Long term - Short term - Subordinated bonds - Outlook	AAA P1 AA1 Stable

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

**DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2008**

---

The directors have pleasure in submitting their report and the audited financial statements of the Group and the Bank for the year ended 31 December 2008.

**Principal Activities**

The principal activities of the Bank are banking and related financial services which also include Islamic banking operations. On 24 August 2008, the Islamic Banking operations of the Bank which were previously included in the Bank's operations were transferred to a wholly-owned subsidiary, HSBC Amanah Malaysia Berhad ("HSBC Amanah") as disclosed in Note 42(a).

The principal activities of the subsidiary companies are as disclosed in Note 12 to the financial statements.

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

**Results**

	<i>Group</i>	<i>Bank</i>
	<b>RM'000</b>	<b>RM'000</b>
Profit before taxation and zakat	<b>1,217,280</b>	<b>1,185,416</b>
Taxation and zakat	<b>(317,923)</b>	<b>(308,780)</b>
Profit after taxation and zakat	<b>899,357</b>	<b>876,636</b>

**Dividends**

Since the end of the previous financial year, the Bank paid a final dividend of RM1.475 per ordinary share less tax at 26% amounting to RM250 million as proposed in the previous year's directors' report. The Bank also paid an interim dividend of RM0.885 per ordinary share less tax amounting to RM150 million in respect of financial year 2008.

The directors now recommend a final dividend of RM0.874 per ordinary share less tax amounting to RM150 million in respect of the current financial year.

**Reserves and Provisions**

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

**Bad and Doubtful Debts and Financing**

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

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

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

*Directors' Report (Cont'd)*

---

**Current Assets**

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

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

**Valuation Methods**

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

**Contingent and Other Liabilities**

At the date of this report there does not exist:

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

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

**Change of Circumstances**

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

**Items of an Unusual Nature**

Except for the transfer of the Bank's Islamic Banking business to a wholly owned subsidiary, HSBC Amanah Malaysia Berhad on 24 August 2008 as disclosed in Note 42(a), the results of the operations of the Group and of the Bank for the financial year were not, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature.

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



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

*Directors' Report (Cont'd)*

---

**Business Strategy During the Year**

The second half of 2008 saw the effects from the global recession becoming more apparent. However, the Group continued to pursue its overall strategy and remained focused on organic long term growth in all business segments.

Rating Agency Malaysia has reaffirmed the Group's AAA/P1 ratings, reflecting the Group's robust asset quality and strong financial standing. The Group maintains its market leader position in various segments and HSBC Bank Malaysia Berhad (the Bank) continues to win recognition with various awards in 2008, including:

1. **Best Project Finance Deal – *The Asset***
2. **Best Islamic Deal of the Year – *Finance Asia***
3. **Islamic Finance Deal of the Year – *The Credit***
4. **Deal of the Year Award 2008 – *CFO Asia***
5. **Winner in the Banking and Investment Sector for Malaysia's Top 100 Leading Graduate Employers 2009 – *GTI Specialist Publishers***
6. **Best Bank in Malaysia – *The Asset Country Awards 2008***
7. **Best Debt House in Malaysia – *The Asset Country Awards 2008***
8. **Best Domestic Cash Management Bank in Malaysia – *Euromoney* (Euromoney's Cash Management Poll)**
9. **Best Foreign Commercial Bank – *Finance Asia Country Awards for Achievement***
10. **Best International Trade Bank in Malaysia – *Trade Finance***
11. **No.1 Top Rated Agent Bank 2008 for Leading Clients and Cross Border Non-Affiliated Clients – *Global Custodian***
12. **Best Sub-Custodian Bank in 2008 – *The Asset Triple A Award***

The year saw considerable volatility in the local interest rate market which in turn created greater trading opportunities for the Group. The robust improvement in trading income during the year is a positive testament to the Group's commitment to generate products and solutions in response to market trends. This includes the development of customised hedging ideas to help customers manage their business risk more effectively. The Bank asserted its market leadership position in the debt capital markets through the issuance of the State Bank of India's RM 500 million Fixed Rate Bond, a landmark transaction which won the Bank the "Deal of the Year Award 2008" from CFO Asia. The Bank also maintained its position as the No.1 foreign bookrunner for Malaysian Ringgit bonds and Islamic bonds.

In corporate banking, the Group continued to capitalize on the competitive advantage offered by its international network and connectivity. Intensive brand campaigns that focused on profile building, together with a series of sales strategies launched in 2008 have resulted in a healthy expansion of customer base and business growth which is in line with the Group's objective of becoming "The Leading International Business Bank" and "The Best Bank for Small Business".

Retail banking grew in strength despite intensified competition during the year as the number of players in the market increased with the setup of Islamic banking subsidiaries by various competitors. The slowdown in the global economy resulted in softening demand for credit and equity investments. Hence, the Group turned its focus to growing its credit card and insurance businesses, and the retention of existing high quality customer advances. This was achieved by providing better quality service and more innovative products to meet customers' needs as well as embarking on various sales and marketing campaigns and retention programmes. The branch service platform programme which debuted in 2007 was rolled out to the remaining branches during the year to ensure consistent customer experience at all branches. The Group also continued to enhance its Premier proposition locally to strengthen HSBC's global Premier network.

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

*Directors' Report (Cont'd)*

---

**Business Strategy During the Year (Cont'd)**

It was a historical year for the Group as its Islamic banking subsidiary; HSBC Amanah Malaysia Berhad ("HSBC Amanah"), commenced operations in the second half of the year, with its first two branches opening for business in November 2008. A wide spectrum of innovative Islamic retail and corporate products and services was introduced to meet the varied needs of HSBC Amanah's customer base. A dedicated call centre and website for HSBC Amanah was also established, providing wider access to its services.

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

**Outlook For 2009**

As the current global economic uncertainty is expected to persist throughout 2009, a challenging year ahead is foreseen. World economic growth is projected to slow down in the coming year and the Malaysian economy will most probably follow global cues. However, its strong economic fundamentals and relatively protected financial system should help mitigate the worst effects of the worldwide economic downturn.

Liquidity in the local financial market is likely to remain ample but income growth could be affected by the unfavourable economic conditions. Margins are expected to contract due to stiff industry competition and the downward trend could be accelerated as further reductions in the Central Bank's overnight policy rate are expected. Capital markets are expected to remain volatile while demand for credit will probably weaken as investor and consumer sentiment is likely to remain cautious. Nevertheless, several measures have been taken by the government, including the RM 7 billion fiscal stimulus package, and these may bolster demand.

One of the Group's key objectives in 2009 is to continue providing support to key clients and customers during these challenging times. Focus will be placed on cross selling various banking products to the Group's existing base of over 1.2 million customers by leveraging on the HSBC brand name, with special emphasis on growing the Premier segment.

In spite of the flagging global economy, the business environment for Islamic financial services in Malaysia remains positive as it is supported by a stable regulatory framework and concerted efforts by the government to promote Malaysia as an Islamic financial centre for the region. The Group intends to expand its Islamic banking business market coverage in the region by leveraging the full suite of innovative Islamic retail and corporate products and services offered by HSBC Amanah. HSBC Amanah opened two new branches in November 2008 and will be opening another two more branches early next year to further expand its geographic reach.

Rigorous credit risk management and strict cost control will be key to ensuring a healthy bottom line for the business in 2009. Nevertheless, the Group will continue to deliver quality customer service and offer innovative banking products and business solutions, while at the same time deepening relationships with valued clients and customers. The Group remains committed to its objective of becoming the most preferred bank in Malaysia.

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

*Directors' Report (Cont'd)*

---

**Directors and Their Interests in Shares**

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

Alexander Andrew Flockhart  
 Irene Mitchell Dorner  
 Jonathan William Addis (appointed on 22 October 2008)  
 Ian Douglas Francis Ogilvie (resigned on 16 October 2008)  
 Tan Sri Dato' Sulaiman bin Sujak  
 Dato' Henry Sackville Barlow  
 Datuk Ramli bin Ibrahim  
 Datuk Dr Zainal Aznam bin Mohd Yusof  
 Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem  
 Dato' Zuraidah binti Atan  
 Ching Yew Chye (appointed on 22 October 2008)

In accordance with the Articles of Association, Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem and Dato' Henry Sackville Barlow retire from the Board at the Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 84 of the Articles of Association, Mr Jonathan William Addis and Mr Ching Yew Chye who have been appointed since the last Annual General Meeting now retire, and being eligible, offer themselves for re-election.

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

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

	<b>Number of Shares</b>			
Name	Balance at 1.1.2008 (or at date of appointment)	Bought	(Sold)	Balance at 31.12.2008
<b>HSBC Holdings plc</b>				
<b>Ordinary shares of USD0.50</b>				
Alexander Andrew Flockhart	130,256	42,327 (A)	-	172,583
Irene Mitchell Dorner	29,608	3,866 (B)	(3,200)	30,274
Jonathan William Addis	1,490	-	-	1,490
Tan Sri Dato' Sulaiman bin Sujak	47,097	2,724 (C)	-	49,821
Dato' Henry Sackville Barlow	880,000 *	-	-	880,000 *

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

*Directors' Report (Cont'd)*

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

- (A) *Shares were acquired through scrip dividends and transfer of shares from HSBC Share Plan and Executive Share Option Scheme*  
 (B) *Shares were acquired through scrip dividends and purchases.*  
 (C) *Shares were acquired through scrip dividends*

*\* Indirect interest held through Majedie Investments plc*

Mr Ian Douglas Francis Ogilvie, a former director of the Bank, acquired 349 ordinary shares through scrip dividends during the financial year prior to his resignation. As of the date of his resignation of 16 October 2008, he held 37,155 ordinary shares.

Name	Number of Shares				
	Shares held at 1.1.2008 (or at date of appointment)	Shares made during year *	(Shares forfeited during the year)	(Shares vested during the year)	Shares held at 31.12.2008
<b>HSBC Holdings plc</b>					
<b>Restricted Share Plan</b>					
Alexander Andrew Flockhart	27,239	275	# (27,514)	-	-
Irene Mitchell Dorner	14,694	163	-	(867)	13,990
Jonathan William Addis	24,383	-	-	-	24,383
Tan Sri Dato' Sulaiman bin Sujak	6,118	-	-	-	6,118

*\* Includes scrip dividends*

*# Shares forfeited under the Restricted Share Plan*

Mr Ian Douglas Francis Ogilvie, a former director of the Bank, was awarded 1,095 shares, had 7,346 shares vested and 21,731 shares forfeited during the financial year prior to his resignation. As of the date of his resignation of 16 October 2008, he had been awarded 22,689 shares under the Restricted Share Plan.

Name	Number of Shares				
	Shares held at 1.1.2008 (or at date of appointment)	Shares made during year ^	(Shares forfeited during the year)	(Shares vested during the year)	Shares held at 31.12.2008
<b>HSBC Holdings plc</b>					
<b>HSBC Share Plan</b>					
Alexander Andrew Flockhart	295,172	155,840	(32,795)	(33,573)	384,644
Irene Mitchell Dorner	28,164	16,661	-	-	44,825

*^ Includes scrip dividends*

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

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

Name	Number of Options				Balance at 31.12.2008
	Balance at 1.1.2008 (or at date of appointment)	Granted	(Exercised)	(Lapsed)	
<b>Options over HSBC Holdings plc Shares</b>					
Alexander Andrew Flockhart	22,500	1,332	(22,500)	-	1,332
Irene Mitchell Dorner	2,247	-	-	-	2,247
Jonathan William Addis	25,500	-	-	-	25,500

Mr Ian Douglas Francis Ogilvie, a former director of the Bank, had 24,717 options exercised during the financial year prior to his resignation. As of the date of his resignation of 16 October 2008, he held 9,720 options.

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

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

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

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

*Directors' Report (Cont'd)*

---

**Ultimate Holding Company**

Prior to 1 January 2009, the Directors regard HSBC Holdings BV, a company incorporated in the Netherlands, and HSBC Holdings plc, a company incorporated in England, as the immediate and ultimate holding companies of the Bank, respectively. On 1 January 2009, as part of an internal re-organisation exercise, the Bank has become a direct wholly owned subsidiary of the HongKong Shanghai Banking Corporation Limited, Hong Kong. HSBC Holdings plc remains the ultimate holding company of the Bank.

**Auditors**

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

Signed in accordance with a resolution of the directors:

.....Director  
**IRENE MITCHELL DORNER**

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

Kuala Lumpur, Malaysia  
5 February 2009

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

**DIRECTORS' STATEMENT**

---

In the opinion of the directors:

We, Irene Mitchell Dorner 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 41 to 121 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 2008 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 5 February 2009

In accordance with a resolution of the directors:

.....Director  
**IRENE MITCHELL DORNER**

.....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 41 to 121 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 5<sup>th</sup> February 2009.

.....

**BALDEV SINGH s/o GURDIAL SINGH**

BEFORE ME:

.....

Signature of Commissioner for Oaths



**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 balance sheets as at 31 December 2008 of the Group and of the Bank, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 41 to 121.

*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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditors' Responsibility*

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

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

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

*Opinion*

In our opinion, the financial statements have been properly drawn up in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Group and the Bank as of 31 December 2008 and of their financial performance and cash flows for the year then ended.

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

*Independent Auditors' Report (Cont'd)*

---

**Report on Other Legal and Regulatory Requirements**

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

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

**Other Matters**

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

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

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

Date:

Petaling Jaya

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

**BALANCE SHEETS AS AT 31 DECEMBER 2008**

	Note	<i>Group</i>		<i>Bank</i>	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Assets</b>					
Cash and short term funds	4	<b>8,428,554</b>	11,321,351	<b>7,445,455</b>	11,321,351
Securities purchased under resale agreements		<b>3,778,793</b>	1,858,579	<b>3,778,793</b>	1,858,579
Deposits and placements with banks and other financial institutions	5	<b>997,814</b>	1,448,953	<b>1,941,125</b>	1,448,953
Securities held-for-trading	6	<b>3,491,259</b>	1,236,193	<b>3,223,521</b>	1,236,193
Securities available-for-sale	7	<b>3,914,911</b>	4,272,517	<b>3,349,350</b>	4,272,517
Loans, advances and financing	8	<b>29,719,270</b>	26,007,124	<b>26,792,239</b>	26,007,124
Other assets	10	<b>1,417,121</b>	897,653	<b>1,424,328</b>	897,653
Statutory deposits with Bank Negara Malaysia	11	<b>653,026</b>	704,847	<b>580,497</b>	704,847
Investments in subsidiary companies	12	-	-	<b>660,021</b>	21
Prepaid lease payments	13	<b>19,551</b>	20,890	<b>19,551</b>	20,890
Property, plant and equipment	14	<b>258,092</b>	258,290	<b>255,609</b>	258,290
Intangible assets	15	<b>51,153</b>	41,869	<b>49,789</b>	41,869
Deferred tax assets	16	<b>86,769</b>	69,675	<b>71,566</b>	69,675
Total Assets		<b>52,816,313</b>	48,137,941	<b>49,591,844</b>	48,137,962
<b>Liabilities</b>					
Deposits from customers	17	<b>40,953,472</b>	36,314,839	<b>37,709,152</b>	36,314,860
Deposits and placements of banks and other financial institutions	18	<b>3,531,472</b>	4,441,901	<b>3,531,472</b>	4,441,901
Bills and acceptances payable		<b>414,233</b>	627,730	<b>413,180</b>	627,730
Other liabilities	19	<b>2,569,719</b>	1,815,550	<b>2,614,505</b>	1,815,550
Recourse obligation on loans sold to Cagamas Berhad		<b>701,370</b>	759,101	<b>701,370</b>	759,101
Provision for taxation and zakat	20	<b>41,160</b>	57,569	<b>41,090</b>	57,569
Subordinated bonds	21	<b>1,027,338</b>	1,000,000	<b>1,027,338</b>	1,000,000
Total Liabilities		<b>49,238,764</b>	45,016,690	<b>46,038,107</b>	45,016,711
<b>Shareholders' Funds</b>					
Share capital	22	<b>114,500</b>	114,500	<b>114,500</b>	114,500
Reserves	23	<b>3,313,049</b>	2,756,751	<b>3,289,237</b>	2,756,751
Proposed dividend		<b>150,000</b>	250,000	<b>150,000</b>	250,000
Shareholders' funds		<b>3,577,549</b>	3,121,251	<b>3,553,737</b>	3,121,251
Total Liabilities and Shareholders' Funds		<b>52,816,313</b>	48,137,941	<b>49,591,844</b>	48,137,962
Commitments and Contingencies	34	<b>85,309,889</b>	76,966,309	<b>83,633,914</b>	76,966,309

*The financial statements were approved and authorised for issue by the Board of Directors on 5 February 2009.*

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

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

**INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008**

	<i>Note</i>	<i>Group</i>		<i>Bank</i>	
		<b>2008</b> RM'000	2007 RM'000	<b>2008</b> RM'000	2007 RM'000
Revenue		<b>3,585,920</b>	3,220,328	<b>3,485,204</b>	3,220,328
Interest income	24	<b>2,180,002</b>	2,000,148	<b>2,191,823</b>	2,000,148
Interest expense	25	<b>(1,012,826)</b>	(886,882)	<b>(1,012,826)</b>	(886,882)
Net interest income		<b>1,167,176</b>	1,113,266	<b>1,178,997</b>	1,113,266
Other operating income	26	<b>1,026,791</b>	869,089	<b>1,052,576</b>	869,089
Income from Islamic banking operations	41 (t)	<b>257,949</b>	231,426	<b>157,999</b>	231,426
Operating income		<b>2,451,916</b>	2,213,781	<b>2,389,572</b>	2,213,781
Other operating expenses	27	<b>(1,011,638)</b>	(956,790)	<b>(996,605)</b>	(956,790)
Profit before allowance		<b>1,440,278</b>	1,256,991	<b>1,392,967</b>	1,256,991
Allowance for losses on loans and financing	28	<b>(222,998)</b>	(225,372)	<b>(207,551)</b>	(225,372)
Profit before taxation and zakat		<b>1,217,280</b>	1,031,619	<b>1,185,416</b>	1,031,619
Taxation and zakat	29	<b>(317,923)</b>	(295,032)	<b>(308,780)</b>	(295,032)
Profit attributable to shareholders		<b>899,357</b>	736,587	<b>876,636</b>	736,587
Earnings per RM0.50 share - basic / diluted	30	<b>392.7 sen</b>	321.7 sen	<b>382.8 sen</b>	321.7 sen
Dividends per RM0.50 ordinary share (net)					
- interim dividend paid		<b>65.5 sen</b>	87.3 sen	<b>65.5 sen</b>	87.3 sen
- proposed		<b>65.5 sen</b>	109.2 sen	<b>65.5 sen</b>	109.2 sen
		<b>131.0 sen</b>	196.5 sen	<b>131.0 sen</b>	196.5 sen

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

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

**STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008**

	<i>Group</i>									
	← Non-distributable				→ Distributable					
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Revaluation reserve</i>	<i>Capital redemption reserve</i>	<i>Available-for-sale reserve</i>	<i>Retained profits</i>	<i>Total reserves</i>	<i>Proposed dividend</i>	<i>Total</i>
<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Balance as at 1 January 2007	114,500	741,375	114,500	118,966	190,000	23,597	1,259,993	2,448,431	250,000	2,812,931
Deferred tax adjustment on revaluation reserve	-	-	-	3,983	-	-	-	3,983	-	3,983
Net unrealised gains on revaluation	-	-	-	-	-	32,557	-	32,557	-	32,557
Transfer to retained profit on realisation of assets	-	-	-	(180)	-	-	180	-	-	-
Net gains transferred to income statement	-	-	-	-	-	(14,807)	-	(14,807)	-	(14,807)
Net gains recognised directly in equity	-	-	-	3,803	-	17,750	180	21,733	-	21,733
Net profit for the year	-	-	-	-	-	-	736,587	736,587	-	736,587
Total recognised income and expense for the year	-	-	-	3,803	-	17,750	736,767	758,320	-	758,320
Dividend paid - 2006 final	-	-	-	-	-	-	-	-	(250,000)	(250,000)
Dividend paid - 2007 interim	-	-	-	-	-	-	(200,000)	(200,000)	-	(200,000)
Proposed dividend - 2007 final	-	-	-	-	-	-	(250,000)	(250,000)	250,000	-
Balance as at 31 December 2007	114,500	741,375	114,500	122,769	190,000	41,347	1,546,760	2,756,751	250,000	3,121,251
Balance as at 1 January 2008	114,500	741,375	114,500	122,769	190,000	41,347	1,546,760	2,756,751	250,000	3,121,251
Deferred tax adjustment on revaluation reserve	-	-	-	816	-	-	-	816	-	816
Net unrealised losses on revaluation	-	-	-	-	-	(6,612)	-	(6,612)	-	(6,612)
Transfer to retained profit on realisation of assets	-	-	-	(862)	-	-	862	-	-	-
Net gains transferred to income statement	-	-	-	-	-	(37,263)	-	(37,263)	-	(37,263)
Net gains/ (losses) recognised directly in equity	-	-	-	(46)	-	(43,875)	862	(43,059)	-	(43,059)
Net profit for the year	-	-	-	-	-	-	899,357	899,357	-	899,357
Transfer to statutory reserve	-	-	11,361	-	-	-	(11,361)	-	-	-
Total recognised income and expense for the year	-	-	11,361	(46)	-	(43,875)	888,858	856,298	-	856,298
Dividend paid - 2007 final	-	-	-	-	-	-	-	-	(250,000)	(250,000)
Dividend paid - 2008 interim	-	-	-	-	-	-	(150,000)	(150,000)	-	(150,000)
Proposed dividend - 2008 final	-	-	-	-	-	-	(150,000)	(150,000)	150,000	-
Balance as at 31 December 2008	114,500	741,375	125,861	122,723	190,000	(2,528)	2,135,618	3,313,049	150,000	3,577,549

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 2008**

	<i>Bank</i>									
	← <i>Non-distributable</i> →				→ <i>Distributable</i>					
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Revaluation reserve</i>	<i>Capital redemption reserve</i>	<i>Available- for-sale reserve</i>	<i>Retained profits</i>	<i>Total reserves</i>	<i>Proposed dividend</i>	<i>Total</i>
<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Balance as at 1 January 2007	114,500	741,375	114,500	118,966	190,000	23,597	1,259,993	2,448,431	250,000	2,812,931
Deferred tax adjustment on revaluation reserve	-	-	-	3,983	-	-	-	3,983	-	3,983
Net unrealised gains on revaluation	-	-	-	-	-	32,557	-	32,557	-	32,557
Transfer to retained profit on realisation of assets	-	-	-	(180)	-	-	180	-	-	-
Net gains transferred to income statement	-	-	-	-	-	(14,807)	-	(14,807)	-	(14,807)
Net gains recognised directly in equity	-	-	-	3,803	-	17,750	180	21,733	-	21,733
Net profit for the year	-	-	-	-	-	-	736,587	736,587	-	736,587
Total recognised income and expense for the year	-	-	-	3,803	-	17,750	736,767	758,320	-	758,320
Dividend paid - 2006 final	-	-	-	-	-	-	-	-	(250,000)	(250,000)
Dividend paid - 2007 interim	-	-	-	-	-	-	(200,000)	(200,000)	-	(200,000)
Proposed dividend - 2007 final	-	-	-	-	-	-	(250,000)	(250,000)	250,000	-
Balance as at 31 December 2007	114,500	741,375	114,500	122,769	190,000	41,347	1,546,760	2,756,751	250,000	3,121,251
Balance as at 1 January 2008	114,500	741,375	114,500	122,769	190,000	41,347	1,546,760	2,756,751	250,000	3,121,251
Deferred tax adjustment on revaluation reserve	-	-	-	816	-	-	-	816	-	816
Net unrealised losses on revaluation	-	-	-	-	-	(7,703)	-	(7,703)	-	(7,703)
Transfer to retained profit on realisation of assets	-	-	-	(862)	-	-	862	-	-	-
Net gains transferred to income statement	-	-	-	-	-	(37,263)	-	(37,263)	-	(37,263)
Net gains/ (losses) recognised directly in equity	-	-	-	(46)	-	(44,966)	862	(44,150)	-	(44,150)
Net profit for the year	-	-	-	-	-	-	876,636	876,636	-	876,636
Total recognised income and expense for the year	-	-	-	(46)	-	(44,966)	877,498	832,486	-	832,486
Dividend paid - 2007 final	-	-	-	-	-	-	-	-	(250,000)	(250,000)
Dividend paid - 2008 interim	-	-	-	-	-	-	(150,000)	(150,000)	-	(150,000)
Proposed dividend - 2008 final	-	-	-	-	-	-	(150,000)	(150,000)	150,000	-
Balance as at 31 December 2008	114,500	741,375	114,500	122,723	190,000	(3,619)	2,124,258	3,289,237	150,000	3,553,737

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

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

**CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008**

	<i>Group</i>	
	2008	2007
	RM'000	RM'000
<b>Cash Flows from Operating Activities</b>		
Profit before taxation and zakat	1,217,280	1,031,619
Adjustments for :		
Property, plant and equipment written off	286	655
Intangible assets written off	1	-
Depreciation of property, plant and equipment	30,722	29,077
Amortisation of intangible assets	17,761	13,549
Amortisation of prepaid lease payments	464	485
Net losses/ (gains) on disposal of property, plant and equipment	107	(3,728)
Dividend income	(2,267)	(1,410)
Operating profit before changes in operating assets	1,264,354	1,070,247
(Increase)/ Decrease in operating assets		
Securities purchased under resale agreements	(1,920,214)	414,960
Deposits and placements with banks and other financial institutions	451,139	540,929
Securities held-for-trading	(2,255,066)	(440,256)
Loans, advances and financing	(3,712,146)	(1,663,187)
Other assets	(490,880)	(319,564)
Statutory deposits with Bank Negara Malaysia	51,821	(6,199)
Increase/ (Decrease) in operating liabilities		
Deposits from customers	4,638,633	4,203,159
Deposits and placements of banks and other financial institutions	(910,429)	2,797,047
Obligations on securities sold under repurchase agreements	-	(1,660,739)
Bills and acceptances payable	(213,497)	137,675
Other liabilities	754,169	464,109
Recourse obligation on loans sold to Cagamas Berhad	(57,731)	(140,650)
Net cash (used in)/ generated from operating activities before income tax	(2,399,847)	5,397,531
Taxes and zakat paid	(335,679)	(271,219)
Net cash (used in)/ generated from operating activities	(2,735,526)	5,126,312
<b>Cash Flows from Investing Activities</b>		
Purchase of property, plant and equipment	(32,538)	(32,286)
Purchase of intangible assets	(27,046)	(26,246)
Proceeds from disposal of property, plant and equipment	2,496	30,004
Securities available-for-sale	297,550	(442,188)
Dividends received	2,267	1,410
Net cash generated from/ (used in) investing activities	242,729	(469,306)
<b>Cash Flows from Financing Activities</b>		
Issuance of subordinated bonds	-	1,000,000
Dividends paid	(400,000)	(450,000)
Net cash (used in)/ generated from financing activities	(400,000)	550,000
<b>Net (decrease)/ increase in Cash and Cash Equivalents</b>	(2,892,797)	5,207,006
<b>Cash and Cash Equivalents at beginning of year</b>	11,321,351	6,114,345
<b>Cash and Cash Equivalents at end of year</b>	8,428,554	11,321,351
<b>Analysis of Cash and Cash Equivalents</b>		
Cash and short-term funds	8,428,554	11,321,351

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

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

**CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008**

	<i>Bank</i>	
	<b>2008</b>	2007
	<b>RM'000</b>	RM'000
<b>Cash Flows from Operating Activities</b>		
Profit before taxation and zakat	1,185,416	1,031,619
Adjustments for :		
Property, plant and equipment written off	286	655
Intangible assets written off	1	-
Depreciation of property, plant and equipment	30,585	29,077
Amortisation of intangible assets	17,381	13,549
Amortisation of prepaid lease payments	464	485
Net losses/ (gains) on disposal of property, plant and equipment	107	(3,728)
Dividend income	(2,267)	(1,410)
Operating profit before changes in operating assets	<u>1,231,973</u>	<u>1,070,247</u>
(Increase)/ Decrease in operating assets		
Securities purchased under resale agreements	(1,920,214)	414,960
Deposits and placements with banks and other financial institutions	(492,172)	540,929
Securities held-for-trading	(1,987,328)	(440,256)
Loans, advances and financing	(3,942,717)	(1,663,187)
Other assets	(569,282)	(319,564)
Statutory deposits with Bank Negara Malaysia	23,450	(6,199)
Increase/ (Decrease) in operating liabilities		
Deposits from customers	6,452,909	4,203,159
Deposits and placements of banks and other financial institutions	(777,182)	2,797,047
Obligations on securities sold under repurchase agreements	-	(1,660,739)
Bills and acceptances payable	(214,550)	137,675
Other liabilities	1,797,144	464,109
Recourse obligation on loans sold to Cagamas Berhad	(57,731)	(140,650)
Net cash (used in)/ generated from operating activities before income tax	<u>(455,700)</u>	<u>5,397,531</u>
Taxes and zakat paid	(325,679)	(271,219)
Net cash (used in)/ generated from operating activities	<u>(781,379)</u>	<u>5,126,312</u>
<b>Cash Flows from Investing Activities</b>		
Investment in subsidiary	(660,000)	-
Net cash outflow from disposal of Islamic Operations	(2,199,049)	-
Purchase of property, plant and equipment	(30,267)	(32,286)
Purchase of intangible assets	(25,411)	(26,246)
Proceeds from disposal of property, plant and equipment	2,496	30,004
Securities available-for-sale	215,447	(442,188)
Dividend received	2,267	1,410
Net cash used in investing activities	<u>(2,694,517)</u>	<u>(469,306)</u>
<b>Cash Flows from Financing Activities</b>		
Issuance of subordinated bonds	-	1,000,000
Dividends paid	(400,000)	(450,000)
Net cash (used in)/ generated from financing activities	<u>(400,000)</u>	<u>550,000</u>
<b>Net (decrease)/increase in Cash and Cash Equivalents</b>	<b>(3,875,896)</b>	<b>5,207,006</b>
<b>Cash and Cash Equivalents at beginning of year</b>	<b>11,321,351</b>	<b>6,114,345</b>
<b>Cash and Cash Equivalents at end of year</b>	<b>7,445,455</b>	<b>11,321,351</b>
<b>Analysis of Cash and Cash Equivalents</b>		
Cash and short-term funds	<u>7,445,455</u>	<u>11,321,351</u>

*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 2008**

**1 General Information**

---

HSBC Bank Malaysia Berhad ("the Bank") is principally engaged in the provision of banking and other related financial services. On 24 August 2008, the Islamic Banking operations which were previously included in the Bank's operations were transferred to a wholly-owned subsidiary, HSBC Amanah Malaysia Berhad ("HSBC Amanah") as disclosed in Note 42(a). The Islamic Banking operations refer generally to the acceptance of deposits and granting of financing under the principles of Shariah.

The subsidiaries of the Bank are principally engaged in the businesses of Islamic Banking and nominee services.

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

**2 Basis of Preparation**

---

**(a) Statement of compliance**

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

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

The significant accounting policies adopted are consistent with those of the audited financial statements for the financial year ended 31 December 2007, except for the adoption of the following Financial Reporting Standards ("FRS's") and Interpretations that are effective for financial periods beginning on or after 1 July 2007:

- FRS 107 Cash Flow Statements
- FRS 111 Construction Contracts
- FRS 112 Income Taxes
- FRS 118 Revenue
- FRS 119 Employee Benefits
- FRS 120 Accounting for Government Grants and Disclosure of Government Assistance
- Amendment to FRS 121, The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation
- FRS 126 Accounting and Reporting by Retirement Benefit Plans
- FRS 129 Financial Reporting in Hyperinflationary Economies
- FRS 134 Interim Financial Reporting
- FRS 137 Provisions, Contingent Liabilities and Contingent Assets
- IC Interpretation 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IC Interpretation 2 Members' Shares in Co-operative Entities and Similar Instruments
- IC Interpretation 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IC Interpretation 6 Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment
- IC Interpretation 7 Applying the Restatement Approach under FRS 129, Financial Reporting in Hyperinflationary Economies
- IC Interpretation 8 Scope of FRS 2

The adoption of FRS's 107, 112, 118, 119, 134, 137, Amendment to FRS 121 and IC Interpretation 8 does not result in significant changes in the accounting policies of the Group and the Bank.

FRS's 111, 120, 126, 129, IC Interpretations 1, 2, 5, 6, and 7 are not applicable to the Group and the Bank.

## 2 Basis of Preparation (Cont'd)

---

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

The MASB has issued the following FRSs and Interpretations that are effective for annual periods beginning after 1 January 2010 and that have not been applied in preparing these financial statements.

<b>FRSs / Interpretations</b>	<b>Effective date</b>
- FRS 4, <i>Insurance Contracts</i>	1 January 2010
- FRS 7, <i>Financial Instruments: Disclosures</i>	1 January 2010
- FRS 8, <i>Operating Segment</i>	1 July 2009
- FRS 139, <i>Financial Instruments; Recognition and Measurement</i>	1 January 2010
- IC Interpretation 9, <i>Reassessment of Embedded Derivatives</i>	1 January 2010
- IC Interpretation 10, <i>Interim Financial Reporting and Impairment</i>	1 January 2010

The Group and the Bank plan to apply the abovementioned FRSs and Interpretations from the annual period beginning 1 January 2010 except for FRS 4 and FRS 8 which are not applicable to the Group and the Bank.

The impact of applying FRS 7 and FRS 139 on the financial statements upon first adoption as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed by virtue of the exemptions given in the respective FRSs.

The initial application of the other Interpretations is not expected to have any material impact on the financial statements of the Group and the Bank.

---

### (b) Basis of measurement

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

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

### (c) Functional and presentation currency

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

---

### (d) Use of estimates and judgements

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

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

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

- Estimation of recoverable amount based on the discounted cash flow methodology for impaired loans (Note 3(i) )
- Fair value estimation of financial assets and liabilities (Note 37)

### **3 Significant Accounting Policies**

---

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

**(a) Basis of Consolidation**

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

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

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

---

**(b) Revenue**

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

---

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

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

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

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

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 in accordance with the principles of Shariah.

---

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

---

#### **(d) Recognition of Fees and Other Income**

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

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

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

---

#### **(e) Cash and Cash Equivalents**

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

---

#### **(f) Resale and Repurchase Agreements**

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

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

---

#### **(g) Securities**

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

##### **i Held for trading**

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

##### **ii Held-to-maturity**

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

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

---

#### (g) Securities (Cont'd)

##### iii Available-for-sale

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

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

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

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

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

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

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

---

#### **(h) Loans, Advances and Financing**

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

---

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

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

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

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

Loans (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, when the proceeds from the realisation of security have been received.

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

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

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

- i fifty per cent (50%) of the secured portion of non-performing loans which are in arrears for more than five (5) years but less than seven (7) years; and
  - ii hundred per cent (100%) of non-performing loans which are in arrears for more than seven (7) years, regardless of any collateral held.
- 

#### **(j) Investment in Subsidiary Companies**

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

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

---

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

---

#### **(k) Property, Plant and Equipment**

Property plant and equipment are stated at cost/valuation less accumulated depreciation and accumulated impairment losses except for freehold land which is stated at cost and directors' valuation.

##### **i Revaluation**

Land and buildings are revalued once every five years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value.

Surpluses arising from revaluation are dealt with in the property revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to the income statement.

##### **ii Depreciation**

Freehold land is not depreciated. Depreciation of other property, plant and equipment is calculated to write off the cost of the property, plant and equipment on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates are:

Buildings on freehold land	50 years
Buildings on leasehold land	The shorter of 50 years and the lease term
Office equipment, fixtures and fittings	5 to 10 years
Computer equipment	3 to 5 years
Motor vehicles	5 years

With the exception of properties, additions to property, plant and equipment costing RM1,000 and under are fully depreciated in the year of purchase; for those assets costing more than RM1,000, depreciation is provided at the above rates.

---

#### **(l) Intangible Assets**

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

---

#### **(m) 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.

---

#### **(n) 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.

---

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

---

#### **(o) Subordinated Bonds**

Subordinated bonds are carried at its face value. Interest expense on subordinated bonds of the Bank is recognised on an accrual basis.

---

#### **(p) Taxation and Deferred Taxation**

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

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

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

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

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

---

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

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

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

##### **i Fair value hedge**

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

##### **ii Cash flow hedge**

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

---



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

---

**(r) Currency Translations**

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

---

**(s) Provisions**

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

---

**(t) 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.

---

**(u) Employee Benefits**

**i Short term employee benefits**

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

**ii Defined contribution plan**

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

---

#### 4 Cash and Short Term Funds

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Cash and balances with banks and other financial institutions	<b>662,280</b>	1,628,709	<b>625,171</b>	1,628,709
Money at call and deposit placements maturing within one month	<b>7,766,274</b>	9,692,642	<b>6,820,284</b>	9,692,642
	<b>8,428,554</b>	11,321,351	<b>7,445,455</b>	11,321,351

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

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Licensed banks	<b>6,079</b>	158,099	<b>949,390</b>	158,099
Bank Negara Malaysia	<b>850,000</b>	780,000	<b>850,000</b>	780,000
Other financial institutions	<b>141,735</b>	510,854	<b>141,735</b>	510,854
	<b>997,814</b>	1,448,953	<b>1,941,125</b>	1,448,953

#### 6 Securities Held-for-Trading

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Money market instruments:				
Malaysian Government treasury bills	<b>320,838</b>	83,422	<b>320,838</b>	83,422
Bank Negara Malaysia bills and notes	<b>1,675,565</b>	316,580	<b>1,675,565</b>	316,580
Bank Negara Malaysia Islamic bills	<b>751,625</b>	315,096	<b>590,274</b>	315,096
Malaysian Government securities	<b>617,346</b>	413,625	<b>617,346</b>	413,625
Malaysian Government Islamic bonds	<b>119,681</b>	9,780	<b>13,294</b>	9,780
Cagamas bonds and notes	<b>4,457</b>	12,474	<b>4,457</b>	12,474
	<b>3,489,512</b>	1,150,977	<b>3,221,774</b>	1,150,977
Unquoted securities:				
Private debt securities (including commercial paper)	<b>1,747</b>	85,216	<b>1,747</b>	85,216
	<b>3,491,259</b>	1,236,193	<b>3,223,521</b>	1,236,193

## 7 Securities Available-for-Sale

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Money market instruments:				
Malaysian Government treasury bills	26,671	29,916	17,353	29,916
Bank Negara Malaysia bills and notes	-	775,282	-	775,282
Bank Negara Malaysia Islamic bills	99,702	804,051	99,702	804,051
Malaysian Government securities	1,712,984	371,059	1,712,984	371,059
Malaysian Government Islamic bonds	648,681	651,757	293,543	651,757
Khazanah bonds	51,096	277,853	-	277,853
Cagamas bonds and notes	130,500	540,095	130,500	540,095
Negotiable instruments of deposit	320,233	320,015	290,242	320,015
Bankers' acceptance and Islamic accepted bills	697,485	90,202	697,485	90,202
	<b>3,687,352</b>	3,860,230	<b>3,241,809</b>	3,860,230
Quoted securities:				
Shares	18,338	21,108	18,338	21,108
Loan stock	8,534	16,106	8,534	16,106
	<b>26,872</b>	37,214	<b>26,872</b>	37,214
Unquoted securities:				
Shares	36,857	77,342	36,857	77,342
Private and Islamic debt securities	175,446	313,837	55,428	313,837
	<b>212,303</b>	391,179	<b>92,285</b>	391,179
Impairment loss:				
Quoted securities in Malaysia:				
Shares	(3,082)	-	(3,082)	-
Loan stock	(8,534)	(16,106)	(8,534)	(16,106)
	<b>(11,616)</b>	(16,106)	<b>(11,616)</b>	(16,106)
	<b>3,914,911</b>	4,272,517	<b>3,349,350</b>	4,272,517

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

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Maturing within one year	2,347,304	2,766,081	1,947,973	2,766,081
One year to three years	971,393	1,094,069	925,181	1,094,069
Three years to five years	138,025	80	138,025	80
Over five years	230,630	-	230,630	-
	<b>3,687,352</b>	3,860,230	<b>3,241,809</b>	3,860,230

## 8 Loans, Advances and Financing

### (i) By type

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Overdrafts	<b>1,641,796</b>	1,523,922	<b>1,640,983</b>	1,523,922
Term loans/ financing				
Housing loans/ financing	<b>9,062,726</b>	8,486,428	<b>9,002,227</b>	8,486,428
Syndicated term loans/ financing	<b>148,234</b>	155,159	<b>148,234</b>	155,159
Hire purchase receivables	<b>281,575</b>	251,516	<b>1,501</b>	251,516
Lease receivables	<b>13,025</b>	23,570	<b>12,723</b>	23,570
Other term loans/ financing	<b>9,087,935</b>	6,887,328	<b>7,130,053</b>	6,887,328
Bills receivable	<b>2,394,848</b>	1,519,669	<b>2,394,848</b>	1,519,669
Trust receipts	<b>596,460</b>	640,323	<b>596,460</b>	640,323
Claims on customers under acceptance credits	<b>2,681,973</b>	2,567,640	<b>1,860,563</b>	2,567,640
Staff loans/ financing	<b>364,836</b>	329,416	<b>363,538</b>	329,416
Credit/ charge cards	<b>2,508,260</b>	2,343,528	<b>2,496,769</b>	2,343,528
Revolving credit	<b>1,805,217</b>	2,024,455	<b>1,805,217</b>	2,024,455
Other loans/ financing	<b>7,108</b>	5,574	<b>7,108</b>	5,574
Less: Unearned interest and income	<b>(135,026)</b>	(131,370)	<b>(2,024)</b>	(131,370)
	<b>30,458,967</b>	26,627,158	<b>27,458,200</b>	26,627,158
Less: Allowance for bad and doubtful debts and financing:				
- General	<b>(462,597)</b>	(401,700)	<b>(410,000)</b>	(401,700)
- Specific	<b>(277,100)</b>	(218,334)	<b>(255,961)</b>	(218,334)
Total net loans, advances and financing	<b>29,719,270</b>	26,007,124	<b>26,792,239</b>	26,007,124

### (ii) By type of customer

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Domestic non-bank financial institutions				
- Stockbroking companies	<b>153,735</b>	153,084	<b>153,735</b>	153,084
- Others	<b>126,224</b>	47,138	<b>100,232</b>	47,138
Domestic business enterprises				
- Small medium enterprises	<b>3,972,736</b>	3,447,776	<b>3,658,030</b>	3,447,776
- Others	<b>10,558,844</b>	9,211,129	<b>8,894,580</b>	9,211,129
Government and statutory bodies	-	23	-	23
Individuals	<b>14,569,770</b>	13,190,289	<b>13,581,205</b>	13,190,289
Other domestic entities	<b>3,025</b>	2,695	<b>3,025</b>	2,695
Foreign entities	<b>1,074,633</b>	575,024	<b>1,067,393</b>	575,024
	<b>30,458,967</b>	26,627,158	<b>27,458,200</b>	26,627,158

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

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Fixed rate				
Housing loans/ financing	<b>255,221</b>	281,934	<b>205,207</b>	281,934
Hire purchase receivables	<b>252,461</b>	223,506	<b>1,454</b>	223,506
Other fixed rate loans/ financing	<b>4,818,473</b>	4,157,222	<b>2,179,834</b>	4,157,222
Variable rate				
BLR plus	<b>20,769,719</b>	17,596,513	<b>20,769,719</b>	17,596,513
Cost-plus	<b>1,805,217</b>	2,024,455	<b>1,805,217</b>	2,024,455
Other variable rates	<b>2,557,876</b>	2,343,528	<b>2,496,769</b>	2,343,528
	<b>30,458,967</b>	26,627,158	<b>27,458,200</b>	26,627,158

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

### (iv) By sector

	<i>Group</i>		<i>Bank</i>	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Agricultural, hunting, forestry and fishing	984,605	1,001,145	860,284	1,001,145
Mining and quarrying	351,003	177,656	332,473	177,656
Manufacturing	5,929,001	5,064,036	5,214,821	5,064,036
Electricity, gas and water	77,945	110,542	60,585	110,542
Construction	806,572	639,879	741,333	639,879
Real estate	705,290	690,951	699,428	690,951
Purchase of landed property:				
- Residential	9,484,962	8,926,254	9,434,932	8,926,254
- Non-residential	1,263,006	1,164,051	1,255,367	1,164,051
Wholesale & retail trade and restaurants & hotels	2,647,329	2,280,204	2,143,651	2,280,204
Transport, storage and communication	473,358	247,079	262,328	247,079
Finance, insurance and business services	2,252,730	1,496,488	1,977,605	1,496,488
Purchase of securities	39,231	48,123	37,555	48,123
Purchase of transport vehicles	46,826	39,915	46,826	39,915
Consumption credit	4,963,151	4,325,096	4,020,871	4,325,096
Others	433,958	415,739	370,141	415,739
	<b>30,458,967</b>	<b>26,627,158</b>	<b>27,458,200</b>	<b>26,627,158</b>

### (v) By maturity structure

	<i>Group</i>		<i>Bank</i>	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Maturing within one year	13,456,044	15,052,588	12,141,340	15,052,588
One year to three years	2,354,820	2,177,112	1,719,213	2,177,112
Three years to five years	2,568,097	2,212,008	1,772,827	2,212,008
Over five years	12,080,006	7,185,450	11,824,820	7,185,450
	<b>30,458,967</b>	<b>26,627,158</b>	<b>27,458,200</b>	<b>26,627,158</b>

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

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

	<i>Group</i>		<i>Bank</i>	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
At beginning of year	438,025	538,401	438,025	538,401
Classified as non-performing during the year	477,390	541,516	455,252	541,516
Reclassified as performing	(80,984)	(104,002)	(80,790)	(104,002)
Loans/ financing converted to securities	-	(19,339)	-	(19,339)
Amount recovered	(177,187)	(173,397)	(173,759)	(173,397)
Amount written off	(187,288)	(256,499)	(174,332)	(256,499)
Disposal of non performing loans	-	(94,727)	-	(94,727)
Amount vested to HSBC Amanah	-	-	(22,681)	-
Other movements	15,848	6,072	15,613	6,072
At end of year	485,804	438,025	457,328	438,025
Specific allowance	(277,100)	(218,334)	(255,961)	(218,334)
Net non-performing loans, advances and financing	<b>208,704</b>	<b>219,691</b>	<b>201,367</b>	<b>219,691</b>
Ratio of net non-performing loans, advances and financing to net loans, advances and financing	0.7%	0.8%	0.7%	0.8%

**9 Non-Performing Loans/ Financing (NPL/ NPF) (Cont'd)**

**(ii) Movements in allowance for bad and doubtful debts**

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
<b>General allowance</b>				
At beginning of year	<b>401,700</b>	372,600	<b>401,700</b>	372,600
Allowance made during the year	<b>67,497</b>	53,200	<b>67,497</b>	53,200
Amount written back during the year	<b>(6,600)</b>	(24,100)	<b>(6,600)</b>	(24,100)
Amount vested to HSBC Amanah	-	-	<b>(52,597)</b>	-
At end of year	<b>462,597</b>	401,700	<b>410,000</b>	401,700
As % of gross loans, advances and financing less specific allowance	1.5%	1.5%	1.5%	1.5%
<b>Specific allowance</b>				
At beginning of year	<b>218,334</b>	272,395	<b>218,334</b>	272,395
Allowance made during the year	<b>258,569</b>	318,312	<b>240,116</b>	318,312
Amount recovered	<b>(37,999)</b>	(69,895)	<b>(36,441)</b>	(69,895)
Amount written off	<b>(177,668)</b>	(308,547)	<b>(164,793)</b>	(308,547)
Other movements	<b>15,864</b>	6,069	<b>15,629</b>	6,069
Amount vested to HSBC Amanah	-	-	<b>(16,884)</b>	-
At end of year	<b>277,100</b>	218,334	<b>255,961</b>	218,334

**(iii) By sector**

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Agricultural, hunting, forestry and fishing	<b>1,196</b>	2,400	<b>1,196</b>	2,400
Manufacturing	<b>52,690</b>	67,164	<b>52,292</b>	67,164
Construction	<b>4,986</b>	8,013	<b>4,986</b>	8,013
Real estate	<b>14,171</b>	14,552	<b>13,939</b>	14,552
Purchase of landed property:				
- Residential	<b>155,347</b>	161,317	<b>154,237</b>	161,317
- Non-residential	<b>25,163</b>	22,244	<b>25,163</b>	22,244
Wholesale & retail trade and restaurants & hotels	<b>66,533</b>	39,578	<b>62,913</b>	39,578
Transport, storage and communication	<b>3,507</b>	1,999	<b>3,507</b>	1,999
Finance, insurance and business services	<b>6,566</b>	3,548	<b>6,566</b>	3,548
Purchase of securities	<b>369</b>	363	<b>369</b>	363
Purchase of transport vehicles	<b>270</b>	286	<b>270</b>	286
Consumption credit	<b>151,561</b>	113,971	<b>130,228</b>	113,971
Others	<b>3,445</b>	2,590	<b>1,662</b>	2,590
	<b>485,804</b>	438,025	<b>457,328</b>	438,025

## 10 Other Assets

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Derivative financial assets (Note 34)	<b>1,202,998</b>	546,321	<b>1,196,195</b>	546,321
Interest/ income receivable	<b>55,432</b>	46,528	<b>49,698</b>	46,528
Other receivables, deposits and prepayments	<b>158,691</b>	304,804	<b>178,435</b>	304,804
	<b>1,417,121</b>	897,653	<b>1,424,328</b>	897,653

## 11 Statutory Deposits with Bank Negara Malaysia

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

## 12 Investments in Subsidiary Companies

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Unquoted shares, at cost - in Malaysia	<b>-</b>	-	<b>660,021</b>	21

The subsidiary companies of the Bank are as follows:

<i>Name</i>	<i>Principal activities</i>	<i>Country of incorporation</i>	<i>Percentage of equity held</i>	
			<b>2008</b>	2007
HSBC (Kuala Lumpur) Nominees Sdn Bhd	Nominee company	Malaysia	<b>100%</b>	100%
HSBC Nominees (Tempatan) Sdn Bhd	Nominee company	Malaysia	<b>100%</b>	100%
HSBC Nominees (Asing) Sdn Bhd	Nominee company	Malaysia	<b>100%</b>	100%
HSBC Amanah Malaysia Berhad	Islamic bank	Malaysia	<b>100%</b>	-*

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

\*HSBC Amanah Malaysia Berhad was incorporated on 26 February 2008.

### 13 Prepaid Lease Payments

	<i>Group and Bank</i>		
	<i>Unexpired period less than 50 years</i>	<i>Unexpired period more than 50 years</i>	<i>Total</i>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2008</b>			
<b>Cost/ Valuation</b>			
Balance as at 1 January 2008	8,111	14,204	22,315
Disposal	(125)	(829)	(954)
Balance as at 31 December 2008	<u>7,986</u>	<u>13,375</u>	<u>21,361</u>
<b>Amortisation</b>			
Balance as at 1 January 2008	565	860	1,425
Amortisation for the year	187	277	464
Disposal	(22)	(57)	(79)
Balance as at 31 December 2008	<u>730</u>	<u>1,080</u>	<u>1,810</u>
<b>Carrying amount at 31 December 2008</b>	<b><u>7,256</u></b>	<b><u>12,295</u></b>	<b><u>19,551</u></b>
<b>2007</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Cost/ Valuation</b>			
Balance as at 1 January 2007	8,261	14,204	22,465
Disposal	(150)	-	(150)
Balance as at 31 December 2007	<u>8,111</u>	<u>14,204</u>	<u>22,315</u>
<b>Amortisation</b>			
Balance as at 1 January 2007	398	573	971
Amortisation for the year	198	287	485
Disposal	(31)	-	(31)
Balance as at 31 December 2007	<u>565</u>	<u>860</u>	<u>1,425</u>
<b>Carrying amount at 31 December 2007</b>	<b><u>7,546</u></b>	<b><u>13,344</u></b>	<b><u>20,890</u></b>

As disclosed in Note 14, these leasehold land together with the buildings erected thereon were revalued on the open market basis as of 31 December 2004 based on professional valuation.



#### 14 Property, Plant and Equipment

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

Had the land and buildings been carried at historical cost less accumulated depreciation, the carrying amount of the revalued assets that would have been included in the financial statements at the end of the year would be as follows:

2008	5,203	57,190	2,903	7,560	-	-	-	72,856
2007	5,203	55,406	4,207	7,860	-	-	-	72,676

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

**14 Property, Plant and Equipment (Cont'd)**

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

Had the land and buildings been carried at historical cost less accumulated depreciation, the carrying amount of the revalued assets that would have been included in the financial statements at the end of the year would be as follows:

2008	5,203	57,190	2,903	7,560	-	-	-	72,856
2007	5,203	55,406	4,207	7,860	-	-	-	72,676

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

#### 14 Property, Plant and Equipment (Cont'd)

2007	Group and Bank							Total
	Freehold 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	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Cost or valuation</b>								
Balance as at 1 January 2007	76,500	130,573	6,047	9,363	133,394	107,795	6,613	470,285
Additions	-	1,075	-	865	19,448	10,160	738	32,286
Disposals	(8,000)	(17,458)	(359)	-	(118)	(1,021)	(2,958)	(29,914)
Written off	-	-	-	-	(5,919)	(1,647)	-	(7,566)
Balance as at 31 December 2007	68,500	114,190	5,688	10,228	146,805	115,287	4,393	465,091
Representing items at:								
Cost	-	5,278	-	865	146,805	115,287	4,393	272,628
Valuation - 2004	68,500	108,912	5,688	9,363	-	-	-	192,463
	68,500	114,190	5,688	10,228	146,805	115,287	4,393	465,091
<b>Accumulated depreciation</b>								
Balance as at 1 January 2007	-	5,274	342	148	111,247	68,260	3,121	188,392
Charge for the year	-	2,647	197	196	10,324	14,672	1,041	29,077
Disposals	-	(985)	(75)	-	(116)	(801)	(1,780)	(3,757)
Written off	-	-	-	-	(5,283)	(1,628)	-	(6,911)
Balance as at 31 December 2007	-	6,936	464	344	116,172	80,503	2,382	206,801
<b>Net book value at 31 December 2007</b>	<b>68,500</b>	<b>107,254</b>	<b>5,224</b>	<b>9,884</b>	<b>30,633</b>	<b>34,784</b>	<b>2,011</b>	<b>258,290</b>

Had the land and buildings been carried at historical cost less accumulated depreciation, the carrying amount of the revalued assets that would have been included in the financial statements at the end of the year would be as follows:

2007	5,203	55,406	4,207	7,860	-	-	-	72,676
2006	18,003	75,181	4,689	7,215	-	-	-	105,088

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

## 15 Intangible Assets

	<i>Group</i>	<i>Bank</i>
	<i>Computer software</i>	
	<b>RM'000</b>	<b>RM'000</b>
<b>2008</b>		
<b>Cost</b>		
Balance as at 1 January 2008	78,245	78,245
Additions	27,046	25,411
Written off	(442)	(442)
Amount vested to HSBC Amanah	-	(2,686)
Balance as at 31 December 2008	<u>104,849</u>	<u>100,528</u>
<b>Accumulated depreciation</b>		
Balance as at 1 January 2008	36,376	36,376
Charge for the year	17,761	17,381
Written off	(441)	(441)
Amount vested to HSBC Amanah	-	(2,577)
Balance as at 31 December 2008	<u>53,696</u>	<u>50,739</u>
<b>Net book value at 31 December 2008</b>	<u><b>51,153</b></u>	<u><b>49,789</b></u>
<b>2007</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Cost</b>		
Balance as at 1 January 2007	52,109	52,109
Additions	26,246	26,246
Written off	(110)	(110)
Balance as at 31 December 2007	<u>78,245</u>	<u>78,245</u>
<b>Accumulated depreciation</b>		
Balance as at 1 January 2007	22,937	22,937
Charge for the year	13,549	13,549
Written off	(110)	(110)
Balance as at 31 December 2007	<u>36,376</u>	<u>36,376</u>
<b>Net book value at 31 December 2007</b>	<u><b>41,869</b></u>	<u><b>41,869</b></u>

## 16 Deferred Tax

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

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Deferred tax liabilities	<b>(19,529)</b>	(35,470)	<b>(18,824)</b>	(35,470)
Deferred tax assets	<b>106,298</b>	105,145	<b>90,390</b>	105,145
	<b>86,769</b>	69,675	<b>71,566</b>	69,675

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

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

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Property, plant and equipment				
- capital allowances	<b>(18,836)</b>	(6,520)	<b>(18,536)</b>	(6,520)
- revaluation	<b>(18,824)</b>	(20,177)	<b>(18,824)</b>	(20,177)
Available-for-sale reserve	<b>888</b>	(15,293)	<b>1,271</b>	(15,293)
Allowances				
- general allowance	<b>120,275</b>	108,459	<b>106,600</b>	108,459
- others	<b>2,970</b>	2,369	<b>736</b>	2,369
Lease receivables	<b>296</b>	837	<b>319</b>	837
	<b>86,769</b>	69,675	<b>71,566</b>	69,675

## 16 Deferred tax (Cont'd)

### Movement in temporary differences during the year

	<i>Group</i>								
	<i>As at</i>	<i>Recognised in</i>	<i>Recognised</i>	<i>As at</i>	<i>Recognised in</i>	<i>Effect of</i>	<i>Recognised</i>	<i>Amount vested</i>	<i>As at</i>
	<i>01-Jan-07</i>	<i>income</i>	<i>in equity</i>	<i>31-Dec-07</i>	<i>income</i>	<i>change in</i>	<i>in equity</i>	<i>to HSBC Amanah</i>	<i>31-Dec-08</i>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment									
- capital allowances	(9,893)	3,373	-	(6,520)	(12,557)	241	-	-	(18,836)
- revaluation	(24,455)	295	3,983	(20,177)	537	-	816	-	(18,824)
Available for sale reserves	(9,177)	-	(6,116)	(15,293)	-	-	16,181	-	888
Allowances									
- general allowance	104,328	4,131	-	108,459	15,833	(4,017)	-	-	120,275
- others	2,210	159	-	2,369	687	(86)	-	-	2,970
Share based payments	5,345	(5,345)	-	-	-	-	-	-	-
Lease receivables	972	(135)	-	837	(510)	(31)	-	-	296
	69,330	2,478	(2,133)	69,675	3,990	(3,893)	16,997	-	86,769
	<i>Bank</i>								
	<i>As at</i>	<i>Recognised in</i>	<i>Recognised</i>	<i>As at</i>	<i>Recognised in</i>	<i>Effect of</i>	<i>Recognised</i>	<i>Amount vested</i>	<i>As at</i>
	<i>01-Jan-07</i>	<i>income</i>	<i>in equity</i>	<i>31-Dec-07</i>	<i>income</i>	<i>change in</i>	<i>in equity</i>	<i>to HSBC Amanah</i>	<i>31-Dec-08</i>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment									
- capital allowances	(9,893)	3,373	-	(6,520)	(12,257)	241	-	-	(18,536)
- revaluation	(24,455)	295	3,983	(20,177)	537	-	816	-	(18,824)
Available for sale reserves	(9,177)	-	(6,116)	(15,293)	-	-	16,564	-	1,271
Allowances									
- general allowance	104,328	4,131	-	108,459	15,833	(4,017)	-	(13,675)	106,600
- others	2,210	159	-	2,369	687	(86)	-	(2,234)	736
Share based payments	5,345	(5,345)	-	-	-	-	-	-	-
Lease receivables	972	(135)	-	837	(487)	(31)	-	-	319
	69,330	2,478	(2,133)	69,675	4,313	(3,893)	17,380	(15,909)	71,566

## 17 Deposits from Customers

### (i) By type of deposit

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Demand deposits	<b>8,344,255</b>	7,606,560	<b>8,277,081</b>	7,606,581
Savings deposits	<b>5,730,478</b>	5,159,481	<b>5,288,679</b>	5,159,481
Fixed / Investment deposits	<b>22,039,043</b>	20,316,874	<b>19,530,225</b>	20,316,874
Negotiable instruments of deposit	<b>670,896</b>	266,092	<b>670,896</b>	266,092
Wholesale money market deposits	<b>2,243,972</b>	1,882,951	<b>2,243,972</b>	1,882,951
Others	<b>1,924,828</b>	1,082,881	<b>1,698,299</b>	1,082,881
	<b>40,953,472</b>	36,314,839	<b>37,709,152</b>	36,314,860

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

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Due within six months	<b>17,350,657</b>	16,101,748	<b>15,411,144</b>	16,101,748
Six months to one year	<b>4,913,129</b>	4,127,503	<b>4,367,735</b>	4,127,503
One year to three years	<b>262,807</b>	115,096	<b>239,186</b>	115,096
Three years to five years	<b>183,346</b>	71,491	<b>183,056</b>	71,491
Over five years	-	167,128	-	167,128
	<b>22,709,939</b>	20,582,966	<b>20,201,121</b>	20,582,966

### (ii) By type of customer

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Government and statutory bodies	<b>151,249</b>	156,972	<b>36,974</b>	156,972
Business enterprises	<b>15,108,552</b>	14,530,053	<b>13,776,791</b>	14,530,074
Individuals	<b>20,550,413</b>	17,780,919	<b>19,121,629</b>	17,780,919
Others	<b>5,143,258</b>	3,846,895	<b>4,773,758</b>	3,846,895
	<b>40,953,472</b>	36,314,839	<b>37,709,152</b>	36,314,860

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

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Bank Negara Malaysia	<b>66,797</b>	111,089	<b>66,797</b>	111,089
Other financial institutions	<b>3,464,675</b>	4,330,812	<b>3,464,675</b>	4,330,812
	<b>3,531,472</b>	<b>4,441,901</b>	<b>3,531,472</b>	<b>4,441,901</b>

## 19 Other Liabilities

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Derivative financial liabilities	<b>1,037,442</b>	507,882	<b>1,030,639</b>	507,882
Interest/ profit payable	<b>207,900</b>	196,813	<b>193,789</b>	196,813
Allowance for commitments and contingencies	<b>2,014</b>	2,245	<b>2,014</b>	2,245
Profit equalisation reserve	<b>6,700</b>	5,700	-	5,700
Other creditors and accruals	<b>1,315,663</b>	1,102,910	<b>1,388,063</b>	1,102,910
	<b>2,569,719</b>	1,815,550	<b>2,614,505</b>	1,815,550

Movement in allowance for commitments and contingencies is as follows:

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
At beginning of year	<b>2,245</b>	2,369	<b>2,245</b>	2,369
Allowance made during the year	<b>60</b>	-	<b>60</b>	-
Amount released	<b>(291)</b>	(123)	<b>(291)</b>	(123)
	<b>(231)</b>	(123)	<b>(231)</b>	(123)
Other movements	-	(1)	-	(1)
At end of year	<b>2,014</b>	2,245	<b>2,014</b>	2,245

## 20 Provision for Taxation and Zakat

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Taxation	<b>41,090</b>	57,499	<b>41,090</b>	57,499
Zakat	<b>70</b>	70	-	70
	<b>41,160</b>	57,569	<b>41,090</b>	57,569

## 21 Subordinated Bonds

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Subordinated bonds, at par	<b>1,000,000</b>	1,000,000	<b>1,000,000</b>	1,000,000
Fair value changes arising from fair value hedge	<b>27,338</b>	-	<b>27,338</b>	-
	<b>1,027,338</b>	1,000,000	<b>1,027,338</b>	1,000,000

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

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

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



## 22 Share Capital

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
<b>Authorised</b>				
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
	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
<b>Issued and Fully Paid</b>				
Ordinary shares of RM0.50 each	114,500	114,500	114,500	114,500

## 23 Reserves

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Share premium	<b>741,375</b>	741,375	<b>741,375</b>	741,375
Statutory reserve	<b>125,861</b>	114,500	<b>114,500</b>	114,500
Revaluation reserve	<b>122,723</b>	122,769	<b>122,723</b>	122,769
Capital redemption reserve	<b>190,000</b>	190,000	<b>190,000</b>	190,000
Available-for-sale reserve	<b>(2,528)</b>	41,347	<b>(3,619)</b>	41,347
Retained profits	<b>2,135,618</b>	1,546,760	<b>2,124,258</b>	1,546,760
	<u><b>3,313,049</b></u>	<u>2,756,751</u>	<u><b>3,289,237</b></u>	<u>2,756,751</u>

The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and is not distributable as cash dividends.

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

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

## 24 Interest Income

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Loans and advances				
- Interest income other than recoveries from NPLs	<b>1,574,611</b>	1,484,083	<b>1,574,611</b>	1,484,083
- Recoveries from NPLs	<b>30,337</b>	37,199	<b>30,337</b>	37,199
Money at call and deposit placements with financial institutions	<b>505,778</b>	346,861	<b>505,778</b>	346,861
Securities available-for-sale	<b>69,793</b>	95,604	<b>69,793</b>	95,604
Others	<b>2,074</b>	-	<b>13,895</b>	-
	<u><b>2,182,593</b></u>	<u>1,963,747</u>	<u><b>2,194,414</b></u>	<u>1,963,747</u>
Amortisation of premium less accretion of discounts	<b>20,587</b>	58,404	<b>20,587</b>	58,404
Interest suspended	<b>(23,178)</b>	(22,003)	<b>(23,178)</b>	(22,003)
Total interest income	<u><b>2,180,002</b></u>	<u>2,000,148</u>	<u><b>2,191,823</b></u>	<u>2,000,148</u>

## 25 Interest Expense

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Deposits and placements of banks and other financial institutions	<b>85,254</b>	73,188	<b>85,254</b>	73,188
Deposits from customers	<b>841,134</b>	714,931	<b>841,134</b>	714,931
Loans sold to Cagamas	<b>34,411</b>	38,786	<b>34,411</b>	38,786
Subordinated bonds	<b>47,129</b>	15,294	<b>47,129</b>	15,294
Others	<b>4,898</b>	44,683	<b>4,898</b>	44,683
	<b>1,012,826</b>	886,882	<b>1,012,826</b>	886,882

## 26 Other Operating Income

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Fees and commissions	<b>384,248</b>	419,246	<b>384,248</b>	419,246
Net gains arising from sale of securities				
- Securities held-for-trading	<b>45,125</b>	348	<b>45,125</b>	348
- Securities available-for-sale	<b>62,611</b>	25,362	<b>62,611</b>	25,362
Net interest income from trading securities	<b>55,637</b>	44,521	<b>55,637</b>	44,521
Net unrealised losses on revaluation of trading securities	<b>(4,793)</b>	(5,396)	<b>(4,793)</b>	(5,396)
Net gains arising from dealing in foreign currency	<b>324,678</b>	354,894	<b>324,678</b>	354,894
Net unrealised gains/ (losses) from dealing in foreign currency	<b>65,907</b>	(18,423)	<b>65,907</b>	(18,423)
Net gains arising from trading in derivatives	<b>10,007</b>	14,228	<b>10,007</b>	14,228
Net unrealised gains/ (losses) on revaluation of derivatives	<b>53,709</b>	(5,277)	<b>53,709</b>	(5,277)
Dividend income from securities available-for-sale				
- Unquoted in Malaysia	<b>2,267</b>	1,410	<b>2,267</b>	1,410
Rental income	<b>6,519</b>	6,557	<b>6,519</b>	6,557
Net (losses)/ gains on disposal of property, plant and equipment	<b>(107)</b>	3,728	<b>(107)</b>	3,728
Net losses on disposal of investments	<b>(118)</b>	-	<b>(118)</b>	-
Other operating income	<b>21,101</b>	27,891	<b>46,886</b>	27,891
	<b>1,026,791</b>	869,089	<b>1,052,576</b>	869,089

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

Cards	<b>168,269</b>	147,266	<b>168,269</b>	147,266
Service charges and fees	<b>115,985</b>	132,614	<b>115,985</b>	132,614
Agency fees	<b>30,550</b>	66,247	<b>30,550</b>	66,247
Credit facilities	<b>29,443</b>	27,488	<b>29,443</b>	27,488

## 27 Other Operating Expenses

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Personnel expenses	<b>502,766</b>	487,157	<b>497,368</b>	487,157
Promotion and marketing related expenses	<b>65,668</b>	70,790	<b>62,926</b>	70,790
Establishment related expenses	<b>120,352</b>	103,086	<b>119,085</b>	103,086
General administrative expenses	<b>322,852</b>	295,757	<b>317,226</b>	295,757
	<b>1,011,638</b>	956,790	<b>996,605</b>	956,790

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

Personnel expenses				
Salaries, allowances and bonuses	<b>381,627</b>	375,753	<b>377,413</b>	375,753
Employees Provident Fund contributions	<b>67,375</b>	61,626	<b>66,706</b>	61,626
Promotion and marketing related expenses				
Advertising and promotion	<b>44,744</b>	44,619	<b>42,002</b>	44,619
Establishment related expenses				
Depreciation of property, plant and equipment	<b>30,722</b>	29,077	<b>30,585</b>	29,077
Amortisation of prepaid lease payments	<b>464</b>	485	<b>464</b>	485
Amortisation of intangible assets	<b>17,761</b>	13,549	<b>17,381</b>	13,549
Information technology costs	<b>16,259</b>	15,751	<b>16,173</b>	15,751
Hire of equipment	<b>7,099</b>	9,663	<b>7,095</b>	9,663
Rental of premises	<b>17,970</b>	12,659	<b>17,465</b>	12,659
Property, plant and equipment written off	<b>286</b>	655	<b>286</b>	655
Intangible assets written off	<b>1</b>	-	<b>1</b>	-
General administrative expenses				
Intercompany expenses	<b>204,392</b>	196,122	<b>201,442</b>	196,122
Fees and commissions paid	<b>4,412</b>	2,042	<b>4,412</b>	2,042
Auditors' remuneration				
-Statutory audit	<b>405</b>	355	<b>355</b>	355
-Other services	<b>207</b>	185	<b>197</b>	185

## 28 Allowance for Losses on Loans and Financing

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b> RM'000	2007 RM'000	<b>2008</b> RM'000	2007 RM'000
Allowance for bad and doubtful debts on loans and financing				
(a) Specific allowance				
- Made in the financial year	<b>258,569</b>	318,312	<b>240,116</b>	318,312
- Written back	<b>(37,999)</b>	(69,895)	<b>(36,441)</b>	(69,895)
(b) General allowance				
- Made in the financial year	<b>67,497</b>	53,200	<b>67,497</b>	53,200
- Written back	<b>(6,600)</b>	(24,100)	<b>(6,600)</b>	(24,100)
Bad debts on loans and financing				
- Recovered	<b>(67,924)</b>	(77,893)	<b>(66,328)</b>	(77,893)
- Written off	<b>9,686</b>	25,871	<b>9,538</b>	25,871
Allowance for losses on commitments and contingencies				
- Made in the financial year	<b>60</b>	-	<b>60</b>	-
- Written back	<b>(291)</b>	(123)	<b>(291)</b>	(123)
	<b>222,998</b>	225,372	<b>207,551</b>	225,372

## 29 Taxation and Zakat

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b> RM'000	2007 RM'000	<b>2008</b> RM'000	2007 RM'000
Malaysian income tax	<b>326,950</b>	297,440	<b>318,200</b>	297,440
Deferred tax				
Origination and reversal of temporary differences	<b>(3,990)</b>	(6,155)	<b>(4,313)</b>	(6,155)
Effect of change in tax rate	<b>3,893</b>	3,677	<b>3,893</b>	3,677
	<b>326,853</b>	294,962	<b>317,780</b>	294,962
Over provision in respect of prior years	<b>(9,000)</b>	-	<b>(9,000)</b>	-
	<b>317,853</b>	294,962	<b>308,780</b>	294,962
Zakat	<b>70</b>	70	-	70
	<b>317,923</b>	295,032	<b>308,780</b>	295,032

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

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b> RM'000	2007 RM'000	<b>2008</b> RM'000	2007 RM'000
Profit before taxation	<b>1,217,280</b>	1,031,619	<b>1,185,416</b>	1,031,619
Income tax using Malaysian tax rates (26%) (2007: 27%)	<b>316,493</b>	278,537	<b>308,208</b>	278,537
Non-deductible expenses	<b>22,344</b>	15,147	<b>21,540</b>	15,147
Tax exempt income	<b>(15,877)</b>	(2,399)	<b>(15,861)</b>	(2,399)
Effect of changes in tax rate	<b>3,893</b>	3,677	<b>3,893</b>	3,677
Over provision in respect of prior years	<b>(9,000)</b>	-	<b>(9,000)</b>	-
Tax expense	<b>317,853</b>	294,962	<b>308,780</b>	294,962

## 30 Earnings per Share

The earnings per ordinary share have been calculated based on the net profit and 229,000,000 (2007: 229,000,000) ordinary shares of RM0.50 each in issue during the year.

### 31 Significant Related Party Transactions and Balances

Parties are considered to be related if : -

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

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

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

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

	<i>Group</i>			
	<b>2008</b>		<b>2007</b>	
	<i>Parent companies RM'000</i>	<i>Other related companies RM'000</i>	<i>Parent companies RM'000</i>	<i>Other related companies RM'000</i>
<u>Income</u>				
Interest on intercompany placements	-	17,881	-	28,807
Interest on current accounts	-	6,202	-	11,917
Fees and commission	-	20,261	-	31,561
Other income	-	14,829	-	12,884
	<b>-</b>	<b>59,173</b>	<b>-</b>	<b>85,169</b>
<u>Expenditure</u>				
Interest on intercompany deposits	-	20,766	-	20,612
Interest on current accounts	-	965	-	585
Fees and commission	-	4,273	-	2,852
Operating expenses	42,879	161,513	46,208	149,914
	<b>42,879</b>	<b>187,517</b>	<b>46,208</b>	<b>173,963</b>
<u>Amount due from</u>				
Intercompany placements	-	665,373	-	577,719
Current account balances	-	211,558	-	132,399
Other assets	-	36,856	-	115,032
	<b>-</b>	<b>913,787</b>	<b>-</b>	<b>825,150</b>
<u>Amount due to</u>				
Intercompany deposits	-	960,923	-	984,142
Current account balances	-	141,296	-	71,105
Other liabilities	13,225	260,782	71,048	142,250
	<b>13,225</b>	<b>1,363,001</b>	<b>71,048</b>	<b>1,197,497</b>

**31 Significant Related Party Transactions and Balances (Cont'd)**

	<i>Bank</i>			
	<b>2008</b>		<b>2007</b>	
	<i>Parent companies</i> RM'000	<i>Other related companies</i> RM'000	<i>Parent companies</i> RM'000	<i>Other related companies</i> RM'000
<u>Income</u>				
Interest on intercompany placements	-	<b>29,702</b>	-	28,807
Interest on current accounts	-	<b>6,202</b>	-	11,917
Fees and commission	-	<b>19,742</b>	-	31,561
Other income	-	<b>40,614</b>	-	12,884
	<b>-</b>	<b>96,260</b>	<b>-</b>	<b>85,169</b>
<u>Expenditure</u>				
Interest on intercompany deposits	-	<b>20,233</b>	-	20,612
Profit attributable to intercompany deposits	-	<b>49</b>	-	-
Interest on current accounts	-	<b>965</b>	-	585
Fees and commission	-	<b>4,273</b>	-	2,852
Operating expenses	<b>42,879</b>	<b>158,563</b>	46,208	149,914
	<b>42,879</b>	<b>184,083</b>	46,208	173,963
<u>Amount due from</u>				
Intercompany placements	-	<b>1,634,668</b>	-	577,719
Current account balances	-	<b>183,995</b>	-	132,399
Other assets	-	<b>63,430</b>	-	115,032
	<b>-</b>	<b>1,882,093</b>	<b>-</b>	<b>825,150</b>
<u>Amount due to</u>				
Intercompany deposits	-	<b>754,816</b>	-	984,142
Current account balances	-	<b>137,966</b>	-	71,105
Other liabilities	<b>13,196</b>	<b>361,027</b>	71,048	142,250
	<b>13,196</b>	<b>1,253,809</b>	71,048	1,197,497

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

There is no outstanding loan and advances balance due by the key management personnel of the Group and the Bank as at 31 December 2008, except for a total outstanding credit card balance of RM127,982 (2007: RM48,532) and RM119,867 (2007: RM48,532) respectively.

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

(b) Key Management Personnel Compensation

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

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b> <b>RM'000</b>	2007 RM'000	<b>2008</b> <b>RM'000</b>	2007 RM'000
Executive Directors				
<u>Short-term employee benefits</u>				
Salary and other remuneration	<b>3,362</b>	3,960	<b>3,216</b>	3,960
Bonuses	<b>1,800</b>	1,611	<b>1,800</b>	1,611
Benefits-in-kind	<b>768</b>	973	<b>768</b>	973
	<b>5,930</b>	6,544	<b>5,784</b>	6,544
Post-employment benefits	<b>48</b>	540	<b>48</b>	540
Share-based payment	<b>515</b>	1,445	<b>515</b>	1,445
	<b>6,493</b>	8,529	<b>6,347</b>	8,529
Non-Executive Directors				
<u>Short-term employee benefits</u>				
Fees	<b>564</b>	464	<b>479</b>	464
	<b>564</b>	464	<b>479</b>	464

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

	<i>Bank</i>	
	<i>Number of Directors</i>	
	<b>2008</b>	2007
Executive Directors		
RM4,550,001 - RM4,600,000	-	1
RM3,400,001 - RM3,450,000	<b>1</b>	-
RM2,650,001 - RM2,700,000	-	1
RM2,450,001 - RM2,500,000	<b>1</b>	-
RM1,250,001 - RM1,300,000	-	1
RM 450,001 - RM500,000	<b>1</b>	-
	<b>3</b>	3
Non-Executive Directors		
RM50,001 - RM100,000	<b>6</b>	6
RM50,000 and below	<b>1</b>	-
	<b>7</b>	6

### 32 Credit exposure to connected parties

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

	<u>Bank</u> <b>2008</b> <b>RM'000</b>
Aggregate value of outstanding credit exposures to connected parties	^ 5,182,637
As a percentage of total credit exposures	5%
As a percentage of capital base	<u>124%</u>
Aggregate value of total outstanding credit exposures to connected parties which is non-performing or in default	<u>-</u>
As a percentage of total credit exposures	-
As a percentage of capital base	<u>-</u>

\* Bank Negara Malaysia's 'Guidelines on Credit Transactions and Exposures with Connected Parties' came into effect in October 2008. Implementation of the Guideline for the Bank's subsidiary, HSBC Amanah Malaysia Berhad, will only take effect in April 2009. Disclosure of comparative figures on credit exposures to connected parties is not required as corresponding information on the preceding year is not available.

^ Consists solely of off balance sheet credit exposures



### 33 Capital Adequacy

	<i>Group</i>	
	2008 RM'000	2007 RM'000
<b>Tier 1 capital</b>		
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)	2,285,618	1,796,760
Statutory reserve	125,861	114,500
	<u>3,457,354</u>	<u>2,957,135</u>
Less: Deferred tax adjustments	(104,705)	(105,145)
Total Tier 1 capital	<u>3,352,649</u>	<u>2,851,990</u>
<b>Tier 2 capital</b>		
Subordinated bonds	1,027,338	1,000,000
Revaluation reserves	71,952	72,383
General allowance for bad and doubtful debts and financing	462,597	401,700
Total Tier 2 capital	<u>1,561,887</u>	<u>1,474,083</u>
Total capital	<u>4,914,536</u>	4,326,073
Less: Investment in subsidiaries	-	-
<b>Capital base</b>	<u>4,914,536</u>	<u>4,326,073</u>
Core capital ratio	9.2%	10.0%
Risk-weighted capital ratio	13.4%	15.1%
Core capital ratio (net of proposed dividend)	8.8%	9.1%
Risk-weighted capital ratio (net of proposed dividend)	13.0%	14.2%

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

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

	<i>Group</i>			
	2008		2007	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
Total RWA for credit risk	59,410,520	30,607,350	52,582,316	27,656,725
Total RWA for market risk	-	1,912,233	-	980,958
Total RWA for operational risk	-	4,035,680	-	-
	<u>59,410,520</u>	<u>36,555,263</u>	<u>52,582,316</u>	<u>28,637,683</u>

### 33 Capital Adequacy (Cont'd)

	<i>Bank</i>	
	2008	2007
	RM'000	RM'000
<b>Tier 1 capital</b>		
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)	2,274,258	1,796,760
Statutory reserve	114,500	114,500
	<u>3,434,633</u>	<u>2,957,135</u>
Less: Deferred tax adjustments	(105,028)	(105,145)
Total Tier 1 capital	<u>3,329,605</u>	<u>2,851,990</u>
<b>Tier 2 capital</b>		
Subordinated bonds	1,027,338	1,000,000
Revaluation reserves	71,952	72,383
General allowance for bad and doubtful debts and financing	410,000	401,700
Total Tier 2 capital	<u>1,509,290</u>	<u>1,474,083</u>
Total capital	<u>4,838,895</u>	<u>4,326,073</u>
Less: Investment in subsidiaries	(660,021)	(21)
<b>Capital base</b>	<u>4,178,874</u>	<u>4,326,052</u>
Core capital ratio	9.8%	10.0%
Risk-weighted capital ratio	12.3%	15.1%
Core capital ratio (net of proposed dividend)	9.4%	9.1%
Risk-weighted capital ratio (net of proposed dividend)	11.9%	14.2%

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

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

	<i>Bank</i>			
	2008		2007	
	Principal	Risk-weighted	Principal	Risk-weighted
	RM'000	RM'000	RM'000	RM'000
Total RWA for credit risk	55,262,515	27,974,288	52,582,316	27,656,725
Total RWA for market risk	-	1,871,762	-	980,958
Total RWA for operational risk	-	3,994,726	-	-
	<u>55,262,515</u>	<u>33,840,776</u>	<u>52,582,316</u>	<u>28,637,683</u>

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

2008

Group

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

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". Comparative information is not required for the first time adoption and disclosure of the RWCAF requirements.

*Note:*

*PSIA* - Profit Sharing Investment Account

*MDBs* - Multilateral Development Banks

*OTC* - Over the counter

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

2008

Bank

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

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". Comparative information is not required for the first time adoption and disclosure of the RWCAF requirements.

*Note:*

PSIA - Profit Sharing Investment Account

MDBs - Multilateral Development Banks

OTC - Over the counter

### 33 Capital Adequacy (Cont'd)

2008

Group

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

2008

Bank

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

The above are disclosures on credit risk by risk weights of the Group and the Bank as at balance sheet date. The following disclosure requirement came into effect in 2008 with the adoption of the Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF". Comparative information is not required for the first time adoption and disclosure of the RWCAF requirements.

*Note:*

*MDBs - Multilateral Development Banks*

*DFIs - Development Financial Institutions*

### 34 Commitments and Contingencies

2008

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

Note 10

\* The credit equivalent and risk weighted amount is computed using credit conversion factors and risk weighting rules as per Bank Negara Malaysia guidelines. From 2008 onwards, the credit conversion factors and risk weighting rules were based on Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF". Comparative information is not required for the first time adoption and disclosure of the RWCAF.

<sup>^</sup> 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 Group's derivative financial instruments as at the balance sheet date. The contractual or underlying principal amount of these derivative financial instruments and their corresponding gross positive (derivative financial asset) fair values as at balance sheet date are shown above.

**34 Commitments and Contingencies (Cont'd)**

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

Note 10

\* The credit equivalent and risk weighted amount is computed using credit conversion factors and risk weighting rules as per Bank Negara Malaysia guidelines. From 2008 onwards, the credit conversion factors and risk weighting rules were based on Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF". Comparative information is not required for the first time adoption and disclosure of the RWCAF.

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

### 35 Interest/ Profit Rate Risk

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

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



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

Group 2007	Non-trading book						Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000			
<b>ASSETS</b>									
Cash and short term funds	9,727,281	-	-	-	-	1,594,070	-	11,321,351	3.56
Securities purchased under resale agreements	879,502	979,077	-	-	-	-	-	1,858,579	3.50
Deposits and placements with banks and other financial institutions	-	1,440,854	-	8,099	-	-	-	1,448,953	4.00
Securities held for trading	-	-	-	-	-	-	1,236,193	1,236,193	3.71
Securities available-for-sale	659,360	898,549	1,313,304	1,296,330	6,525	98,449	-	4,272,517	3.69
Loans, advances and financing									
- performing	20,483,360	2,413,919	755,898	994,843	325,056	814,357	-	25,787,433	6.55
- non-performing *	-	-	-	-	-	219,691	-	219,691	-
Others	-	-	-	-	-	1,326,033	667,191	1,993,224	-
<b>TOTAL ASSETS</b>	<b>31,749,503</b>	<b>5,732,399</b>	<b>2,069,202</b>	<b>2,299,272</b>	<b>331,581</b>	<b>4,052,600</b>	<b>1,903,384</b>	<b>48,137,941</b>	
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>									
Deposits from customers	17,919,846	4,354,973	6,732,610	804,387	62,677	6,440,346	-	36,314,839	2.77
Deposits and placements of banks and other financial institutions	1,906,527	465,475	55,293	256,256	1,171	1,757,179	-	4,441,901	3.29
Bills and acceptances payable	57,297	65,067	-	-	-	505,366	-	627,730	3.30
Recourse obligation on loans sold to Cagamas Berhad	-	-	-	759,101	-	-	-	759,101	4.71
Subordinated bonds	-	-	-	-	1,000,000	-	-	1,000,000	4.70
Others	-	-	-	-	-	1,069,923	803,196	1,873,119	-
<b>Total Liabilities</b>	<b>19,883,670</b>	<b>4,885,515</b>	<b>6,787,903</b>	<b>1,819,744</b>	<b>1,063,848</b>	<b>9,772,814</b>	<b>803,196</b>	<b>45,016,690</b>	
Shareholders' funds	-	-	-	-	-	3,121,251	-	3,121,251	
<b>Total Liabilities and Shareholders' funds</b>	<b>19,883,670</b>	<b>4,885,515</b>	<b>6,787,903</b>	<b>1,819,744</b>	<b>1,063,848</b>	<b>12,894,065</b>	<b>803,196</b>	<b>48,137,941</b>	
On-balance sheet interest sensitivity gap	11,865,833	846,884	(4,718,701)	479,528	(732,267)	(8,841,465)	1,100,188	-	
Off-balance sheet interest sensitivity gap									
Interest rate contracts									
- futures	-	790,910	(800,910)	10,000	-	-	-	-	
- options	(72,800)	(306,885)	156,885	222,800	-	-	-	-	
- swaps	(1,166,983)	(296,659)	1,281,480	257,076	(26,307)	-	-	48,607	
<b>Total interest sensitivity gap</b>	<b>10,626,050</b>	<b>1,034,250</b>	<b>(4,081,246)</b>	<b>969,404</b>	<b>(758,574)</b>	<b>(8,841,465)</b>	<b>1,100,188</b>	<b>48,607</b>	

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

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

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

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

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

Bank 2007	Non-trading book						Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000			
<b>ASSETS</b>									
Cash and short term funds	9,727,281	-	-	-	-	1,594,070	-	11,321,351	3.56
Securities purchased under resale agreements	879,502	979,077	-	-	-	-	-	1,858,579	3.50
Deposits and placements with banks and other financial institutions	-	1,440,854	-	8,099	-	-	-	1,448,953	4.00
Securities held for trading	-	-	-	-	-	-	1,236,193	1,236,193	3.71
Securities available-for-sale	659,360	898,549	1,313,304	1,296,330	6,525	98,449	-	4,272,517	3.69
Loans, advances and financing									
- performing	20,483,360	2,413,919	755,898	994,843	325,056	814,357	-	25,787,433	6.55
- non-performing *	-	-	-	-	-	219,691	-	219,691	-
Others	-	-	-	-	-	1,326,054	667,191	1,993,245	-
<b>TOTAL ASSETS</b>	<b>31,749,503</b>	<b>5,732,399</b>	<b>2,069,202</b>	<b>2,299,272</b>	<b>331,581</b>	<b>4,052,621</b>	<b>1,903,384</b>	<b>48,137,962</b>	
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>									
Deposits from customers	17,919,846	4,354,973	6,732,610	804,387	62,677	6,440,367	-	36,314,860	2.77
Deposits and placements of banks and other financial institutions	1,906,527	465,475	55,293	256,256	1,171	1,757,179	-	4,441,901	3.29
Bills and acceptances payable	57,297	65,067	-	-	-	505,366	-	627,730	3.30
Recourse obligation on loans sold to Cagamas Berhad	-	-	-	759,101	-	-	-	759,101	4.71
Subordinated bonds	-	-	-	-	1,000,000	-	-	1,000,000	4.70
Others	-	-	-	-	-	1,069,923	803,196	1,873,119	-
<b>Total Liabilities</b>	<b>19,883,670</b>	<b>4,885,515</b>	<b>6,787,903</b>	<b>1,819,744</b>	<b>1,063,848</b>	<b>9,772,835</b>	<b>803,196</b>	<b>45,016,711</b>	
Shareholders' funds	-	-	-	-	-	3,121,251	-	3,121,251	
<b>Total Liabilities and Shareholders' funds</b>	<b>19,883,670</b>	<b>4,885,515</b>	<b>6,787,903</b>	<b>1,819,744</b>	<b>1,063,848</b>	<b>12,894,086</b>	<b>803,196</b>	<b>48,137,962</b>	
On-balance sheet interest sensitivity gap	11,865,833	846,884	(4,718,701)	479,528	(732,267)	(8,841,465)	1,100,188	-	
Off-balance sheet interest sensitivity gap									
Interest rate contracts									
- futures	-	790,910	(800,910)	10,000	-	-	-	-	
- options	(72,800)	(306,885)	156,885	222,800	-	-	-	-	
- swaps	(1,166,983)	(296,659)	1,281,480	257,076	(26,307)	-	-	48,607	
<b>Total interest sensitivity gap</b>	<b>10,626,050</b>	<b>1,034,250</b>	<b>(4,081,246)</b>	<b>969,404</b>	<b>(758,574)</b>	<b>(8,841,465)</b>	<b>1,100,188</b>	<b>48,607</b>	

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

### 36 Collateral

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

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
<b>Carrying amount of assets pledged as collateral</b>				
- Collateral pledged for repurchase agreements	<b>218,306</b>	286,870	-	286,870
<b>Fair value of assets accepted as collateral and collateral sold/ repledged</b>				
- Collateral accepted for reverse repurchase agreement	<b>3,778,793</b>	1,858,579	<b>3,778,793</b>	1,858,579
- Collateral sold	<b>274,781</b>	248,787	<b>274,781</b>	248,787

### 37 Fair Values of Financial Assets and Liabilities

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

	<i>Group</i>			
	<b>2008</b>	<b>2008</b>	2007	2007
	<b>Carrying amount</b>	<b>Fair Value</b>	Carrying amount	Fair Value
	<b>RM'000</b>	<b>RM'000</b>	RM'000	RM'000
<b>Financial Assets</b>				
Cash and short term funds	<b>8,428,554</b>	<b>8,428,554</b>	11,321,351	11,321,351
Securities purchased under resale agreements	<b>3,778,793</b>	<b>3,778,793</b>	1,858,579	1,858,579
Deposits and placements with banks and other financial institutions	<b>997,814</b>	<b>997,814</b>	1,448,953	1,448,953
Securities held-for-trading	<b>3,491,259</b>	<b>3,491,259</b>	1,236,193	1,236,193
Securities available-for-sale	<b>3,914,911</b>	<b>3,919,918</b>	4,272,517	4,280,147
Loans, advances and financing	<b>29,719,270</b>	<b>29,646,664</b>	26,007,124	25,929,798
<b>Financial Liabilities</b>				
Deposits from customers	<b>40,953,472</b>	<b>41,107,331</b>	36,314,860	36,239,687
Deposits and placements of banks and other financial institutions	<b>3,531,472</b>	<b>3,539,739</b>	4,441,901	4,589,051
Bills and acceptances payable	<b>414,233</b>	<b>414,233</b>	627,730	627,730
Recourse obligation on loans sold to Cagamas Berhad	<b>701,370</b>	<b>696,313</b>	759,101	767,376
Subordinated bonds	<b>1,027,338</b>	<b>1,027,338</b>	1,000,000	994,917

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

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

			<i>Bank</i>	
	2008 Carrying amount RM'000	2008 Fair Value RM'000	2007 Carrying amount RM'000	2007 Fair Value RM'000
<b>Financial Assets</b>				
Cash and short term funds	7,445,455	7,445,455	11,321,351	11,321,351
Securities purchased under resale agreements	3,778,793	3,778,793	1,858,579	1,858,579
Deposits and placements with banks and other financial institutions	1,941,125	1,941,125	1,448,953	1,448,953
Securities held-for-trading	3,223,521	3,223,521	1,236,193	1,236,193
Securities available-for-sale	3,349,350	3,354,357	4,272,517	4,280,147
Loans, advances and financing	26,792,239	26,762,735	26,007,124	25,929,798
<b>Financial Liabilities</b>				
Deposits from customers	37,709,152	37,851,638	36,173,695	36,239,687
Deposits and placements of banks and other financial institutions	3,531,472	3,539,739	4,583,066	4,589,051
Bills and acceptances payable	413,180	413,180	627,730	627,730
Recourse obligation on loans sold to Cagamas Berhad	701,370	696,313	759,101	767,376
Subordinated bonds	1,027,338	1,027,338	1,000,000	994,917

### **37 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:

**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 value due to their relatively short-term nature.

#### **Securities**

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

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

#### **Loans, advances and financing**

For personal and commercial loans and advances which mature or reprice after six months, fair value is principally estimated by discounting anticipated cash flows (including interest at contractual rates). Performing loans are grouped to the extent possible, into homogenous pools segregated by maturity within each pool. In general, cash flows are discounted using current market rates for instruments with similar maturity, repricing and credit risk characteristics. For non-performing loans, the fair value is the carrying value of the loans, net of specific allowances. General allowances are deducted from the fair value of loans, advances and financing.

**Deposits from customers**  
**Deposits and placements of banks and other financial institutions**  
**Recourse obligation on loans sold to Cagamas Berhad**

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

#### **Unrecognised financial instruments**

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

#### **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.

### 38 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:

<b>Year</b>	<i>Group</i>	<i>Bank</i>
	<b>RM'000</b>	<b>RM'000</b>
Less than one year	<b>19,459</b>	<b>19,439</b>
Between one and five years	<b>23,329</b>	<b>23,312</b>
More than five years	<b>220</b>	<b>220</b>
	<b>43,008</b>	<b>42,971</b>

### 39 Capital Commitments

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Capital expenditure:				
- Authorised and contracted for	<b>5,219</b>	4,079	<b>4,039</b>	4,079
- Authorised but not contracted for	<b>6,113</b>	2,132	<b>4,683</b>	2,132
	<b>11,332</b>	6,211	<b>8,722</b>	6,211

#### 40 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	2008 Number (‘000)	Weighted average exercise price £	2007 Number (‘000)	Weighted average exercise price £
Outstanding at 1 January	1,711	7.68	1,853	7.87
Exercised in the year	-	-	(65)	7.54
Lapsed in the year	(68)	7.94	(77)	7.86
Outstanding at 31 December	<u>1,643</u>	<u>7.88</u>	<u>1,711</u>	7.68
Options vested at 31 December	<u>-</u>		<u>-</u>	
	2008 RM’000		2007 RM’000	
Compensation cost written back during the year	<u>(465)</u>		<u>(904)</u>	

##### Bank

Year	2008 Number (‘000)	Weighted average exercise price £	2007 Number (‘000)	Weighted average exercise price £
Outstanding at 1 January	1,711	7.68	1,853	7.87
Exercised in the year	-	-	(65)	7.54
Lapsed in the year	(68)	7.94	(77)	7.86
Outstanding at 31 December	<u>1,643</u>	<u>7.88</u>	<u>1,711</u>	7.68
Options vested at 31 December	<u>-</u>		<u>-</u>	
	2008 RM’000		2007 RM’000	
Compensation cost written back during the year	<u>(465)</u>		<u>(904)</u>	

The Group Share Option Plan ceased in 2005 and is 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 lapsed.



#### 40 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	2008	Weighted	2007	Weighted
	Number	average	Number	average
	('000)	exercise	('000)	exercise
		price		price
		£		£
Outstanding at 1 January	1,932	7.07	1,712	6.60
Granted in the year	945	6.82	771	7.09
Exercised in the year	(755)	6.44	(384)	6.81
Lapsed in the year	(414)	7.06	(162)	7.29
Transfers	(1)	6.91	(5)	7.07
Outstanding at 31 December	<u>1,707</u>	<u>6.87</u>	<u>1,932</u>	<u>7.07</u>
Options vested at 31 December	<u>752</u>		<u>368</u>	
	2008		2007	
	RM'000		RM'000	
Compensation cost recognised during the year	<u>7,408</u>		<u>9,455</u>	

##### Bank

Year	2008	Weighted	2007	Weighted
	Number	average	Number	average
	('000)	exercise	('000)	exercise
		price		price
		£		£
Outstanding at 1 January	1,932	7.07	1,712	6.60
Granted in the year	945	6.82	771	7.09
Exercised in the year	(755)	6.44	(384)	6.81
Lapsed in the year	(414)	7.06	(162)	7.29
Transfer to HSBC Amanah	(13)	7.12	-	-
Other transfers	(1)	6.91	(5)	7.07
Outstanding at 31 December	<u>1,694</u>	<u>6.87</u>	<u>1,932</u>	<u>7.07</u>
Options vested at 31 December	<u>752</u>		<u>368</u>	
	2008		2007	
	RM'000		RM'000	
Compensation cost recognised during the year	<u>7,379</u>		<u>9,455</u>	

#### 40 Equity-based Compensation (Cont'd)

##### c. Restricted Share Plan

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

Year	<i>Group</i>		<i>Bank</i>	
	<b>2008</b> Number ( <b>'000</b> )	2007 Number ( <b>'000</b> )	<b>2008</b> Number ( <b>'000</b> )	2007 Number ( <b>'000</b> )
Outstanding at 1 January	<b>89</b>	249	<b>89</b>	249
Additions during the year	<b>41</b>	35	<b>41</b>	35
Released in the year	<b>(4)</b>	(195)	<b>(4)</b>	(195)
Outstanding at 31 December	<b>126</b>	89	<b>126</b>	89
	<b>2008</b> RM' <b>000</b>	2007 RM' <b>000</b>	<b>2008</b> RM' <b>000</b>	2007 RM' <b>000</b>
Compensation cost recognised/ (written back) during the year	<b>1,399</b>	(216)	<b>1,399</b>	(216)

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan is £7.48 (2007: £8.71). The closing price of the HSBC share at 31 December 2008 was £6.62 (2007: £8.42). The weighted average remaining vesting period as at 31 December 2008 was 2.49 years (2007: 2.83 years).

##### d. Achievement Share Award

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

Year	<i>Group</i>		<i>Bank</i>	
	<b>2008</b> Number ( <b>'000</b> )	2007 Number ( <b>'000</b> )	<b>2008</b> Number ( <b>'000</b> )	2007 Number ( <b>'000</b> )
Outstanding at 1 January	<b>325</b>	182	<b>325</b>	182
Additions during the year	<b>147</b>	143	<b>147</b>	143
Released in the year	<b>(78)</b>	-	<b>(78)</b>	-
Lapsed in the year	<b>(46)</b>	-	<b>(46)</b>	-
Outstanding at 31 December	<b>348</b>	325	<b>348</b>	325
	<b>2008</b> RM' <b>000</b>	2007 RM' <b>000</b>	<b>2008</b> RM' <b>000</b>	2007 RM' <b>000</b>
Compensation cost recognised during the year	<b>6,780</b>	5,618	<b>6,780</b>	5,618

The weighted average purchase price for all shares purchased by HSBC for awards under the Achievement Shares Award is £8.89 (2007: £9.00). The closing price of the HSBC share at 31 December 2008 was £6.62 (2007: £8.42). The weighted average remaining vesting period as at 31 December 2008 was 2.09 years (2007: 2.17 years).

#### 41 Operations of Islamic Banking

##### Balance Sheets as at 31 December 2008 (3 Muharam 1430)

	<i>Note</i>	<i>Group</i>		<i>Bank</i>	
		<b>2008</b>	2007	<b>2008</b>	2007
<b>Assets</b>		<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Cash and short term funds	(a)	<b>1,009,083</b>	1,139,046	-	1,139,046
Securities held-for-trading	(b)	<b>267,738</b>	-	-	-
Securities available-for-sale	(c)	<b>565,561</b>	821,927	-	821,927
Financing, advances and other loans	(d)	<b>2,927,031</b>	2,961,465	-	2,961,465
Other assets	(f)	<b>122,416</b>	6,879	-	6,879
Statutory deposits with Bank Negara Malaysia		<b>72,529</b>	77,100	-	77,100
Equipment		<b>2,483</b>	397	-	397
Intangible assets		<b>1,364</b>	213	-	213
Deferred tax asset	(g)	<b>15,203</b>	15,584	-	15,584
<b>Total Assets</b>		<b>4,983,408</b>	5,022,611	-	5,022,611
<b>Liabilities</b>					
Deposits from customers	(h)	<b>3,244,341</b>	3,323,111	-	3,323,111
Deposits and placements of banks and other financial institutions	(i)	<b>969,295</b>	5,772	-	5,772
Bills and acceptances payable		<b>1,053</b>	-	-	-
Other liabilities	(j)	<b>84,837</b>	1,046,751	-	1,046,751
Provision for taxation and zakat	(k)	<b>70</b>	25,833	-	25,833
<b>Total Liabilities</b>		<b>4,299,596</b>	4,401,467	-	4,401,467
<b>Shareholder's Equity</b>					
Islamic Banking funds		-	430,000	-	430,000
Share capital	(l)	<b>50,000</b>	-	-	-
Reserves	(m)	<b>633,812</b>	191,144	-	191,144
<b>Total Shareholder's Equity</b>		<b>683,812</b>	621,144	-	621,144
<b>Total Liabilities and Shareholder's Equity</b>		<b>4,983,408</b>	5,022,611	-	5,022,611
Commitments and Contingencies	(v)	<b>1,675,975</b>	327,901	-	327,901

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

#### 41 Operations of Islamic Banking (Cont'd)

##### Income Statements for the Year Ended 31 December 2008 (3 Muharam 1430)

	<i>Note</i>	<i>Group</i>		<i>Bank</i>	
		<b>2008</b> RM'000	2007 RM'000	<b>2008</b> RM'000	2007 RM'000
Income derived from investment of depositors funds and others	(n)	<b>317,647</b>	286,833	<b>205,025</b>	286,833
Allowance for losses on financing	(o)	<b>(47,900)</b>	(36,389)	<b>(32,453)</b>	(36,389)
Profit equalisation reserve	(j)	<b>(1,000)</b>	(1,000)	<b>(1,000)</b>	(1,000)
Total distributable income		<b>268,747</b>	249,444	<b>171,572</b>	249,444
Income attributable to depositors	(p)	<b>(153,187)</b>	(151,315)	<b>(102,945)</b>	(151,315)
Income attributable to the Bank		<b>115,560</b>	98,129	<b>68,627</b>	98,129
Income derived from investment of shareholders' funds	(q)	<b>61,529</b>	64,942	<b>35,780</b>	64,942
Total net income		<b>177,089</b>	163,071	<b>104,407</b>	163,071
Other operating expenses	(r)	<b>(90,981)</b>	(66,090)	<b>(50,163)</b>	(66,090)
Profit before taxation and zakat		<b>86,108</b>	96,981	<b>54,244</b>	96,981
Taxation and zakat	(s)	<b>(24,723)</b>	(26,538)	<b>(15,580)</b>	(26,538)
Profit after taxation and zakat		<b>61,385</b>	70,443	<b>38,664</b>	70,443

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

**41 Operations of Islamic Banking (Cont'd)**

**Statements of Changes in Equity for the Year Ended 31 December 2008 (3 Muharam 1430)**

	<i>Group</i>							<i>Total</i>
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Funds allocated from Head Office</i>	<i>Available-for-sale reserve</i>	<i>Retained profits</i>	<i>Total reserves</i>	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Balance as at 1 January 2007	-	-	-	430,000	2,149	120,293	122,442	552,442
Net unrealised losses on revaluation	-	-	-	-	(1,522)	-	(1,522)	(1,522)
Net gains transferred to income statement	-	-	-	-	(219)	-	(219)	(219)
Net losses recognised directly in equity	-	-	-	-	(1,741)	-	(1,741)	(1,741)
Net profit for the year	-	-	-	-	-	70,443	70,443	70,443
Total recognised income and expense for the year	-	-	-	-	(1,741)	70,443	68,702	68,702
Balance as at 31 December 2007	-	-	-	430,000	408	190,736	191,144	621,144
Balance as at 1 January 2008	-	-	-	430,000	408	190,736	191,144	621,144
Issue of share capital during the year	50,000	610,000	-	-	-	-	610,000	660,000
Net unrealised gains on revaluation	-	-	-	-	1,091	-	1,091	1,091
Net gains transferred to income statement	-	-	-	-	(408)	-	(408)	(408)
Net gains recognised directly in equity	-	-	-	-	683	-	683	683
Net profit for the year	-	-	-	-	-	61,385	61,385	61,385
Total recognised income and expense for the year	-	-	-	-	683	61,385	62,068	62,068
Transfer to Head Office	-	-	-	(430,000)	-	(229,400)	(229,400)	(659,400)
Transfer to Statutory Reserve	-	-	11,361	-	-	(11,361)	-	-
Balance as at 31 December 2008	50,000	610,000	11,361	-	1,091	11,360	633,812	683,812

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

**41 Operations of Islamic Banking (Cont'd)**

**Statements of Changes in Equity for the Year Ended 31 December 2008 (3 Muharam 1430) (Cont'd)**

	<i>Bank</i>							<i>Total</i>
	← <i>Non-distributable</i> →			<i>Distributable</i>				
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Funds allocated from Head Office</i>	<i>Available-for-sale reserve</i>	<i>Retained profits</i>	<i>Total reserves</i>	
<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	
Balance as at 1 January 2007	-	-	-	430,000	2,149	120,293	122,442	552,442
Net unrealised losses on revaluation	-	-	-	-	(1,522)	-	(1,522)	(1,522)
Net gains transferred to income statement	-	-	-	-	(219)	-	(219)	(219)
Net losses recognised directly in equity	-	-	-	-	(1,741)	-	(1,741)	(1,741)
Net profit for the year	-	-	-	-	-	70,443	70,443	70,443
Total recognised income and expense for the year	-	-	-	-	(1,741)	70,443	68,702	68,702
Balance as at 31 December 2007	-	-	-	430,000	408	190,736	191,144	621,144
Balance as at 1 January 2008	-	-	-	430,000	408	190,736	191,144	621,144
Net gains transferred to income statement	-	-	-	-	(408)	-	(408)	(408)
Net losses recognised directly in equity	-	-	-	-	(408)	-	(408)	(408)
Net profit for the year	-	-	-	-	-	38,664	38,664	38,664
Total recognised income and expense for the year	-	-	-	-	(408)	38,664	38,256	38,256
Transfer to Head Office	-	-	-	(430,000)	-	(229,400)	(229,400)	(659,400)
Balance as at 31 December 2008	-	-	-	-	-	-	-	-

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

#### 41 Operations of Islamic Banking (Cont'd)

##### Cash Flow Statements for the Year Ended 31 December 2008 (3 Muharam 1430)

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
<b>Cash Flows from Operating Activities</b>				
Profit before taxation and zakat	<b>86,108</b>	96,981	<b>54,244</b>	96,981
Adjustments for :				
Depreciation of equipment	<b>472</b>	133	<b>335</b>	133
Amortisation of intangible assets	<b>677</b>	339	<b>297</b>	339
Equipment written off	<b>3</b>	-	<b>3</b>	-
Operating profit before changes in operating assets	<b>87,260</b>	97,453	<b>54,879</b>	97,453
(Increase)/ Decrease in operating assets				
Deposits and placements with banks and other financial institutions	-	160,000	-	160,000
Securities held-for-trading	<b>(267,738)</b>	-	-	-
Financing, advances and other loans	<b>9,173</b>	118,788	<b>(221,398)</b>	118,788
Other assets	<b>(107,310)</b>	4,217	<b>(56,089)</b>	4,217
Statutory deposits with Bank Negara Malaysia	<b>4,571</b>	12,500	<b>(23,800)</b>	12,500
Increase/ (Decrease) in operating liabilities				
Deposits from customers	<b>(78,770)</b>	(331,695)	<b>1,735,506</b>	(331,695)
Deposits and placements of banks and other financial institutions	<b>963,523</b>	(181,034)	<b>127,475</b>	(181,034)
Bills and acceptances payable	<b>1,053</b>	-	-	-
Other liabilities	<b>(959,385)</b>	67,492	<b>(46,033)</b>	67,492
Net cash (used in)/ generated from operating activities before income tax	<b>(347,623)</b>	(52,279)	<b>1,570,540</b>	(52,279)
Taxation paid	<b>(10,000)</b>	-	-	-
Net cash (used in)/ generated from operating activities	<b>(357,623)</b>	(52,279)	<b>1,570,540</b>	(52,279)
<b>Cash Flows from Investing Activities</b>				
Purchase of equipment	<b>(2,561)</b>	(262)	<b>(290)</b>	(262)
Purchase of intangible assets	<b>(1,828)</b>	-	<b>(193)</b>	-
Securities available-for-sale	<b>257,281</b>	216,053	<b>175,178</b>	216,053
Net cash outflow from disposal of Islamic Operations	-	-	<b>(2,199,049)</b>	-
Funds transferred to Head Office	<b>(685,232)</b>	-	<b>(685,232)</b>	-
Net cash (used in)/ generated from investing activities	<b>(432,340)</b>	215,791	<b>(2,709,586)</b>	215,791
<b>Cash Flow from Financing Activity</b>				
Issuance of ordinary shares	<b>660,000</b>	-	-	-
Net cash generated from financing activity	<b>660,000</b>	-	-	-
<b>Net (decrease)/ increase in Cash and Cash Equivalents</b>	<b>(129,963)</b>	163,512	<b>(1,139,046)</b>	163,512
<b>Cash and Cash Equivalents at beginning of year</b>	<b>1,139,046</b>	975,534	<b>1,139,046</b>	975,534
<b>Cash and Cash Equivalents at end of year</b>	<b>1,009,083</b>	1,139,046	<b>-</b>	1,139,046
<b>Analysis of Cash and Cash Equivalents</b>				
Cash and short-term funds	<b>1,009,083</b>	1,139,046	<b>-</b>	1,139,046

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

#### 41 Operations of Islamic Banking (Cont'd)

##### (a) Cash and Short Term Funds

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Cash and balances with banks and other financial institutions	<b>37,109</b>	676	-	676
Money at call and deposit placements maturing within one month	<b>971,974</b>	1,138,370	-	1,138,370
	<b>1,009,083</b>	1,139,046	-	1,139,046

##### (b) Securities Held-for-Trading

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Money market instruments:				
Bank Negara Malaysia Islamic bills	<b>161,351</b>	-	-	-
Malaysian Government Islamic bonds	<b>106,387</b>	-	-	-
	<b>267,738</b>	-	-	-

##### (c) Securities Available-for-Sale

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Money market instruments:				
Malaysian Government treasury bills	<b>9,318</b>	-	-	-
Malaysian Government Islamic bonds	<b>355,138</b>	354,498	-	354,498
Negotiable Islamic instruments of deposit	<b>29,991</b>	19,992	-	19,992
Islamic Khazanah bonds	<b>51,096</b>	266,072	-	266,072
	<b>445,543</b>	640,562	-	640,562
Unquoted securities:				
Islamic debt securities	<b>120,018</b>	181,365	-	181,365
	<b>565,561</b>	821,927	-	821,927

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

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Maturing within one year	<b>399,331</b>	237,438	-	237,438
One year to three years	<b>46,212</b>	403,124	-	403,124
	<b>445,543</b>	640,562	-	640,562



#### 41 Operations of Islamic Banking (Cont'd)

##### (d) Financing, Advances and Other Loans

###### (i) By type

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Cash line	813	-	-	-
Term financing				
House financing	60,499	86,295	-	86,295
Hire purchase receivables	280,074	250,807	-	250,807
Lease receivables	302	23,055	-	23,055
Other term financing	1,957,882	1,379,211	-	1,379,211
Claims on customers under acceptance credits	821,410	1,416,825	-	1,416,825
Staff financing	1,298	-	-	-
Credit /charge cards	11,491	1,105	-	1,105
Less: Unearned income	(133,002)	(131,370)	-	(131,370)
	<b>3,000,767</b>	<b>3,025,928</b>	<b>-</b>	<b>3,025,928</b>
Less: Allowance for bad and doubtful financing :				
- General	(52,597)	(45,525)	-	(45,525)
- Specific	(21,139)	(18,938)	-	(18,938)
Total net financing, advances and other loans	<b>2,927,031</b>	<b>2,961,465</b>	<b>-</b>	<b>2,961,465</b>

###### (ii) By contract

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Bai Bithaman Ajil ( <i>deferred payment sale</i> )	960,382	468,678	-	468,678
Ijarah ( <i>operating lease</i> )	262	22,162	-	22,162
Ijarah Thumma Al-Bai ( <i>hire purchase / finance lease</i> )	250,745	222,798	-	222,798
Murabahah ( <i>cost-plus</i> )	692,905	1,002,634	-	1,002,634
Bai Al-Inah ( <i>sell and buy back</i> )	913,274	828,204	-	828,204
Qard ( <i>benevolent financing</i> )	953	-	-	-
Others	182,246	481,452	-	481,452
	<b>3,000,767</b>	<b>3,025,928</b>	<b>-</b>	<b>3,025,928</b>

###### (iii) By type of customer

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Domestic non-bank financial institutions				
- Others	25,992	-	-	-
Domestic business enterprises				
- Small medium enterprises	314,706	309	-	309
- Others	1,664,264	2,108,985	-	2,108,985
Individuals	988,565	912,870	-	912,870
Foreign entities	7,240	3,764	-	3,764
	<b>3,000,767</b>	<b>3,025,928</b>	<b>-</b>	<b>3,025,928</b>

#### 41 Operations of Islamic Banking (Cont'd)

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

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

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Fixed rate				
House financing	50,014	70,157	-	70,157
Hire purchase receivables	251,007	222,798	-	222,798
Other financing	2,638,639	2,731,008	-	2,731,008
Variable rate				
Other financing	61,107	1,965	-	1,965
	<b>3,000,767</b>	<b>3,025,928</b>	<b>-</b>	<b>3,025,928</b>

##### (v) By sector

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Agriculture, hunting, forestry and fishing	124,321	180,737	-	180,737
Mining and quarrying	18,530	6,056	-	6,056
Manufacturing	714,180	1,216,464	-	1,216,464
Electricity, gas and water	17,360	9,043	-	9,043
Construction	65,239	28,007	-	28,007
Real estate	5,862	9,541	-	9,541
Purchase of landed property:				
- Residential	50,030	70,157	-	70,157
- Non-residential	7,639	9,704	-	9,704
Wholesale & retail trade and restaurants & hotels	503,678	351,957	-	351,957
Transport, storage and communication	211,030	82,720	-	82,720
Finance, insurance and business services	275,125	136,438	-	136,438
Purchase of securities	1,676	-	-	-
Consumption credit	942,280	844,359	-	844,359
Others	63,817	80,745	-	80,745
	<b>3,000,767</b>	<b>3,025,928</b>	<b>-</b>	<b>3,025,928</b>

##### (vi) By maturity structure

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Maturing within one year	1,314,704	1,466,886	-	1,466,886
One year to three years	635,607	435,664	-	435,664
Three years to five years	795,270	842,295	-	842,295
Over five years	255,186	281,083	-	281,083
	<b>3,000,767</b>	<b>3,025,928</b>	<b>-</b>	<b>3,025,928</b>

#### 41 Operations of Islamic Banking (Cont'd)

##### (e) Non-Performing Financing (NPF)

##### (i) Movements in non-performing financing, advances and other loans (including income receivables)

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
At beginning of year	24,321	22,183	24,321	22,183
Classified as non-performing during the year	70,737	87,200	48,599	87,200
Reclassified as performing	(372)	(631)	(178)	(631)
Amount recovered	(24,220)	(6,214)	(20,792)	(6,214)
Amount written off	(39,280)	(40,719)	(26,324)	(40,719)
Others	(2,710)	-	(2,945)	-
Amount vested to HSBC Amanah	-	(37,498)	(22,681)	(37,498)
At end of year	28,476	24,321	-	24,321
Specific allowance	(21,139)	(18,938)	-	(18,938)
Net non-performing financing, advances and other loans	7,337	5,383	-	5,383
Ratio of net non-performing financing, advances and other loans to net financing, advances and other loans	0.3%	0.2%	-	0.2%

##### (ii) Movements in allowance for bad and doubtful financing

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>General allowance</b>				
At beginning of year	45,525	48,740	45,525	48,740
Made during the year	9,072	535	9,072	535
Allowance written back during the year	(2,000)	(3,750)	(2,000)	(3,750)
Amount vested to HSBC Amanah	-	-	(52,597)	-
At end of year	52,597	45,525	-	45,525
As % of total financing less specific allowance	1.8%	1.5%	-	1.5%

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Specific allowance</b>				
At beginning of year	18,938	18,703	18,938	18,703
Allowance made during the year	49,522	47,487	31,069	47,487
Amount recovered	(5,863)	(6,697)	(4,305)	(6,697)
Amount written off	(39,199)	(40,555)	(26,324)	(40,555)
Other movements	(2,259)	-	(2,494)	-
Amount vested to HSBC Amanah	-	-	(16,884)	-
At end of year	21,139	18,938	-	18,938

#### 41 Operations of Islamic Banking (Cont'd)

##### (e) Non-Performing Financing (NPF) (Cont'd)

##### (iii) Non-performing financing by sector

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Manufacturing	<b>398</b>	1,526	-	1,526
Real estate	<b>232</b>	232	-	232
Purchase of landed property:				
- Residential	<b>1,110</b>	2,152	-	2,152
Wholesale & retail trade and restaurants & hotels	<b>3,620</b>	-	-	-
Consumption credit	<b>21,333</b>	18,866	-	18,866
Others	<b>1,783</b>	1,545	-	1,545
	<b>28,476</b>	24,321	-	24,321

##### (f) Other Assets

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Revaluation gain on equity related contract (Note v)	<b>6,803</b>	-	-	-
Income receivable	<b>5,735</b>	6,692	-	6,692
Other receivables, deposits and prepayments	<b>109,878</b>	187	-	187
	<b>122,416</b>	6,879	-	6,879

##### (g) Deferred Tax Asset

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
The amounts, determined after appropriate offsetting are as follows:				
Deferred tax assets	<b>15,909</b>	15,584	-	15,584
Deferred tax liabilities	<b>(706)</b>	-	-	-
	<b>15,203</b>	15,584	-	15,584

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

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

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Equipment				
- Capital allowance	<b>(300)</b>	1,557	-	1,557
Available-for-sale reserve	<b>(383)</b>	(151)	-	(151)
Allowances				
- general allowance	<b>13,675</b>	12,292	-	12,292
- others	<b>2,234</b>	1,886	-	1,886
Lease receivables	<b>(23)</b>	-	-	-
	<b>15,203</b>	15,584	-	15,584

#### 41 Operations of Islamic Banking (Cont'd)

##### (h) Deposits from Customers

##### (i) By type of deposit

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Non-Mudharabah Fund				
Demand deposits	<b>67,195</b>	87,528	-	87,528
Savings deposits	<b>441,799</b>	382,606	-	382,606
	<b>508,994</b>	470,134	-	470,134
Mudharabah Fund				
General investment deposits	<b>2,508,818</b>	2,852,977	-	2,852,977
Others	<b>226,529</b>	-	-	-
	<b>3,244,341</b>	3,323,111	-	3,323,111

The maturity structure of general investment deposits is as follows:

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Due within six months	<b>2,197,743</b>	2,502,289	-	2,502,289
Six months to one year	<b>287,791</b>	349,440	-	349,440
One year to three years	<b>23,164</b>	959	-	959
Three years to five years	<b>120</b>	289	-	289
	<b>2,508,818</b>	2,852,977	-	2,852,977

##### (ii) By type of customer

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Government and statutory bodies	<b>114,275</b>	129,263	-	129,263
Business enterprises	<b>1,331,782</b>	1,671,061	-	1,671,061
Individuals	<b>1,428,784</b>	1,320,548	-	1,320,548
Others	<b>369,500</b>	202,239	-	202,239
	<b>3,244,341</b>	3,323,111	-	3,323,111

##### (i) Deposits and Placements of Banks and Other Financial Institutions

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Mudharabah Fund				
Bank Negara Malaysia	-	5,740	-	5,740
Licensed banks	<b>969,295</b>	-	-	-
Other financial institutions	-	32	-	32
	<b>969,295</b>	5,772	-	5,772

#### 41 Operations of Islamic Banking (Cont'd)

##### (j) Other Liabilities

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Revaluation loss on equity related contract	6,803	-	-	-
Special placement deposits by Head Office	-	920,792	-	920,792
Settlement due to Head Office	-	52,838	-	52,838
Profit equalisation reserve	6,700	5,700	-	5,700
Profit payable	14,111	21,206	-	21,206
Other creditors and accruals	57,223	46,215	-	46,215
	<b>84,837</b>	<b>1,046,751</b>	<b>-</b>	<b>1,046,751</b>

Movement in profit equalisation reserve is as follows:

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
At beginning of year	5,700	4,700	5,700	4,700
Provided in the financial year	1,000	1,000	1,000	1,000
Amount vested to HSBC Amanah	-	-	(6,700)	-
At end of year	<b>6,700</b>	<b>5,700</b>	<b>-</b>	<b>5,700</b>

##### (k) Provision for Taxation and Zakat

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Taxation	-	25,763	-	25,763
Zakat	70	70	-	70
	<b>70</b>	<b>25,833</b>	<b>-</b>	<b>25,833</b>

##### (l) Share capital

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<b>Authorised:</b>				
Ordinary shares of RM0.50 each				
Created during the financial year	300,000	-	-	-
At as 31 December	300,000	-	-	-
<b>Issued and fully paid:</b>				
Ordinary shares of RM0.50 each				
Issued during the financial year	50,000	-	-	-
As at 31 December	50,000	-	-	-

#### 41 Operations of Islamic Banking (Cont'd)

##### (m) Reserves

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Non-distributable				
Share premium	610,000	-	-	-
Statutory reserve	11,361	-	-	-
Available-for-sale reserve	1,091	408	-	408
	<b>622,452</b>	408	-	408
Distributable				
Retained profits	11,360	190,736	-	190,736
	<b>633,812</b>	191,144	-	191,144

##### (n) Income Derived from Investment of Depositors' Funds and Others

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Income derived from investment of:				
(i) general investment deposits	254,762	215,483	165,227	215,483
(ii) specific investment deposits	26,898	36,948	18,443	36,948
(iii) other deposits	35,987	34,402	21,355	34,402
	<b>317,647</b>	286,833	<b>205,025</b>	286,833

##### (i) Income derived from investment of general investment deposits

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<u>Finance income and hibah:</u>				
Financing, advances and other loans	198,029	177,491	132,131	177,491
Money at call and deposit with financial institutions	50,405	35,964	31,898	35,964
Total finance income and hibah	<b>248,434</b>	213,455	<b>164,029</b>	213,455
<u>Other operating income</u>				
Net gains from dealing in foreign currency	1,912	2,028	1,198	2,028
Net gains from sale of held-for-trading securities	3,160	-	-	-
Net unrealised gains from revaluation of trading securities	691	-	-	-
Net profit earned from trading securities	565	-	-	-
	<b>254,762</b>	215,483	<b>165,227</b>	215,483

##### (ii) Income derived from investment of specific investment deposits

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<u>Finance income and hibah:</u>				
Available-for-sale securities	21,116	26,959	14,001	26,959
Accretion of discount less amortisation of premium	7,129	9,989	5,789	9,989
Total finance income and hibah	<b>28,245</b>	36,948	<b>19,790</b>	36,948
<u>Other operating income</u>				
Loss from sale of securities	(1,347)	-	(1,347)	-
	<b>26,898</b>	36,948	<b>18,443</b>	36,948

#### 41 Operations of Islamic Banking (Cont'd)

##### (n) Income Derived from Investment of Depositors' Funds and Others (Cont'd)

(iii) Income derived from investment of other deposits

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<u>Finance income and hibah:</u>				
Financing, advances and other loans	27,847	28,337	17,078	28,337
Money at call and deposit with financial institutions	7,148	5,741	4,123	5,741
Total finance income and hibah	34,995	34,078	21,201	34,078
<u>Other operating income</u>				
Net gains from dealing in foreign currency	271	324	154	324
Net gains from sale of held-for-trading securities	516	-	-	-
Net unrealised gains from revaluation of trading securities	113	-	-	-
Net profit earned from trading securities	92	-	-	-
	35,987	34,402	21,355	34,402

##### (o) Allowance for Losses on Financing

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Allowance for bad and doubtful debts on financing:				
(a) Specific allowance				
- Made in the financial year	49,522	47,487	31,069	47,487
- Written back	(5,863)	(6,697)	(4,305)	(6,697)
(b) General allowance				
- Made in the financial year	9,072	535	9,072	535
- Written back	(2,000)	(3,750)	(2,000)	(3,750)
Bad debts on loans and financing				
- Recovered	(3,432)	(1,495)	(1,836)	(1,495)
- Written off	601	309	453	309
	47,900	36,389	32,453	36,389

##### (p) Income Attributable to Depositors

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Deposits from customers				
- Mudharabah Fund	108,511	106,480	73,323	106,480
- Non-Mudharabah Fund	8,258	6,842	5,264	6,842
Deposits and placements of banks and other financial institutions				
- Mudharabah Fund	15,279	5,344	3,219	5,344
Special placement deposits by Head Office	21,139	32,649	21,139	32,649
	153,187	151,315	102,945	151,315



#### 41 Operations of Islamic Banking (Cont'd)

##### (q) Income Derived from the Investment of Shareholders' Funds

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<u>Financing income and hibah:</u>				
Financing, advances and other loans	30,539	31,927	16,575	31,927
Money at call and deposit with financial institutions	7,923	6,469	4,001	6,469
Total finance income and hibah	38,462	38,396	20,576	38,396
<u>Other operating income</u>				
Fees and commission	21,781	26,181	15,054	26,181
Net gains from dealing in foreign currency	301	365	150	365
Net gains from sale of held-for-trading securities	670	-	-	-
Net unrealised gains from revaluation of trading securities	146	-	-	-
Net profit earned from trading securities	120	-	-	-
Other income	49	-	-	-
	61,529	64,942	35,780	64,942

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

Service charges and fees	14,831	18,152	9,693	18,152
Agency fees	4,174	2,247	3,404	2,247
Cards	689	517	228	517

##### (r) Other operating expenses

	<i>Group</i>		<i>Bank</i>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Personnel expenses	28,810	26,082	23,412	26,082
Promotion and marketing related expenses	4,111	4,141	1,369	4,141
Establishment related expenses	3,942	2,492	2,675	2,492
General administrative expenses	54,118	33,375	22,707	33,375
	90,981	66,090	50,163	66,090
Shariah Committee's Remuneration	103	113	69	113

#### 41 Operations of Islamic Banking (Cont'd)

##### (s) Taxation and Zakat

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Malaysian income tax	<b>25,172</b>	25,763	<b>16,422</b>	25,763
Deferred tax				
Origination and reversal of temporary differences	<b>(519)</b>	705	<b>(842)</b>	705
	<b>24,653</b>	26,468	<b>15,580</b>	26,468
Zakat	<b>70</b>	70	-	70
	<b>24,723</b>	26,538	<b>15,580</b>	26,538

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

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Profit before taxation	<b>86,108</b>	96,981	<b>54,244</b>	96,981
Income tax using Malaysian tax rates (26%) (2007: 27%)	<b>22,388</b>	26,185	<b>14,103</b>	26,185
Non-deductible expenses	<b>1,962</b>	283	<b>1,158</b>	283
Effect of changes in tax rate	<b>567</b>	-	<b>583</b>	-
Tax exempt gains	<b>(264)</b>	-	<b>(264)</b>	-
	<b>24,653</b>	26,468	<b>15,580</b>	26,468

##### (t) Income from Islamic Banking Operations

For consolidation with the conventional operations, income from Islamic banking operations comprises the following items:

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Income derived from investment of depositors' funds and others	<b>317,598</b>	286,833	<b>205,025</b>	286,833
Profit equalisation reserves	<b>(1,000)</b>	(1,000)	<b>(1,000)</b>	(1,000)
Income attributable to the depositors	<b>(141,317)</b>	(151,315)	<b>(102,945)</b>	(151,315)
Income attributable to special placement deposits by Head Office	<b>21,139</b>	32,649	<b>21,139</b>	32,649
Profit from structured deposits earned from Head Office	-	(683)	-	(683)
	<b>196,420</b>	166,484	<b>122,219</b>	166,484
Income derived from the investment of Islamic banking capital funds	<b>61,529</b>	64,942	<b>35,780</b>	64,942
<b>Income from Islamic Banking operations</b>	<b>257,949</b>	231,426	<b>157,999</b>	231,426

#### 41 Operations of Islamic Banking (Cont'd)

##### (u) Capital Adequacy

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b> RM'000	2007 RM'000	<b>2008</b> RM'000	2007 RM'000
<b><u>Tier 1 capital</u></b>				
Paid-up ordinary share capital	<b>50,000</b>	-	-	-
Share premium	<b>610,000</b>	-	-	-
Funds allocated from Head Office	-	430,000	-	430,000
Retained profits	<b>11,360</b>	190,736	-	190,736
Statutory reserves	<b>11,361</b>	-	-	-
	<b>682,721</b>	620,736	-	620,736
Less: Deferred tax adjustments	<b>323</b>	(15,735)	-	(15,735)
Total Tier 1 capital	<b>683,044</b>	605,001	-	605,001
<b><u>Tier 2 capital</u></b>				
General allowance for bad and doubtful financing	<b>52,597</b>	45,525	-	45,525
Total Tier 2 capital	<b>52,597</b>	45,525	-	45,525
<b>Capital base</b>	<b>735,641</b>	650,526	-	650,526
Core capital ratio	<b>19.6%</b>	17.5%	-	17.5%
Risk-weighted capital ratio	<b>21.2%</b>	18.8%	-	18.8%

From 2008 onwards, the capital ratios have been computed in accordance with the Capital Adequacy Framework for Islamic Banks (CAFIB).

Breakdown of risk-weighted assets:

	<i>Group</i>		<i>Bank</i>	
	<b>Risk weighted</b> <b>2008</b> RM'000	2007 RM'000	<b>Risk weighted</b> <b>2008</b> RM'000	2007 RM'000
Total RWA for credit risk	<b>3,272,489</b>	3,464,234	-	3,464,234
Total RWA for market risk	<b>40,471</b>	-	-	-
Total RWA for operational risk	<b>165,244</b>	-	-	-
	<b>3,478,204</b>	3,464,234	-	3,464,234

#### 41 Operations of Islamic Banking (Cont'd)

##### (u) Capital Adequacy (Cont'd)

2008

Group

Exposure Class	Gross Exposures (RM'000)	Net Exposures (RM'000)	Risk Weighted Assets (RWA) (RM'000)	RWA Absorbed by PSIA (RM'000)	Total RWA after PSIA (RM'000)	Capital Requirement (RM'000)
<b>Credit Risk</b>						
<i>On-Balance Sheet Exposures</i>						
Sovereigns/Central Banks Banks, Development Financial Institutions & MDBs	1,463,828	1,463,828	-	-	-	-
Corporates	123,316	123,316	24,663	-	24,663	1,973
Regulatory Retail	1,989,766	1,989,266	1,869,318	-	1,869,318	149,545
Residential Mortgages	1,063,356	1,061,525	796,143	-	796,143	63,692
Other Assets	59,450	59,450	44,587	-	44,587	3,567
Defaulted Exposures	16,411	16,411	16,411	-	16,411	1,313
<b>Total for On-Balance Sheet</b>	<b>4,746,262</b>	<b>4,743,917</b>	<b>2,795,337</b>	<b>-</b>	<b>2,795,337</b>	<b>223,627</b>
<i>Off-Balance Sheet Exposures</i>						
OTC Derivatives	17,223	17,223	3,445	-	3,445	276
Off balance sheet exposures other than OTC derivatives or credit derivatives	486,248	485,782	473,704	-	473,704	37,896
Defaulted Exposures	2	2	3	-	3	-
<b>Total for Off-Balance Sheet Exposures</b>	<b>503,473</b>	<b>503,007</b>	<b>477,152</b>	<b>-</b>	<b>477,152</b>	<b>38,172</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>5,249,735</b>	<b>5,246,924</b>	<b>3,272,489</b>	<b>-</b>	<b>3,272,489</b>	<b>261,799</b>
<b>Large Exposures Risk Requirement</b>	-	-	-	-	-	-
<b>Market Risk</b>	<u>Long position</u>	<u>Short position</u>				
Interest Rate Risk	267,738	-	267,738	38,639	38,639	3,090
Foreign Currency Risk	1,832	-	1,832	1,832	1,832	147
<b>Total market risk</b>	<b>269,570</b>	<b>-</b>	<b>269,570</b>	<b>40,471</b>	<b>40,471</b>	<b>3,237</b>
<b>Operational Risk</b>	-	-	-	<b>165,244</b>	<b>165,244</b>	<b>13,220</b>
<b>Total RWA and Capital Requirement</b>	-	-	-	<b>3,478,204</b>	<b>3,478,204</b>	<b>278,256</b>

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 Capital Adequacy Framework for Islamic Banks "CAFIB". Comparative information is not required for the first time adoption and disclosure of the CAFIB requirements.

Note:

PSIA - Profit Sharing Investment Account

MDBs - Multilateral Development Banks

OTC - Over the counter

#### 41 Operations of Islamic Banking (Cont'd)

##### (u) Capital Adequacy (Cont'd)

2008

Group

Risk Weights	Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
	Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporates	Regulatory Retail	Residential Mortgages	Specialised Financing / Investment		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
0%	1,463,828	-	-	-	-	-	1,463,828	-
20%	-	140,539	153,776	-	-	-	294,315	58,863
50%	-	-	-	286	-	-	286	143
75%	-	-	-	1,097,548	59,450	-	1,156,998	867,749
100%	-	-	2,285,249	13	1,351	16,410	2,303,023	2,303,023
150%	-	-	490	27,984	-	-	28,474	42,711
Total Risk Weight	-	-	-	-	-	-	5,246,924	3,272,489
Average Risk Weight	-	-	-	-	-	-	291,496	181,805
Deduction from Capital Base	-	-	-	-	-	-	-	-

The above are disclosures on credit risk by risk weights 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 Capital Adequacy Capital Framework for Islamic Banks "CAFIB". Comparative information is not required for the first time adoption and disclosure of the CAFIB requirements.

Note:

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

#### 41 Operations of Islamic Banking (Cont'd)

##### (v) Commitment and Contingencies

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

The table below shows the contract or underlying principal amounts, positive fair value of derivative contracts, credit equivalents amounts and risk weighted amounts of unmatured off-balance sheet transactions as at balance sheet date. The contract or underlying principle amounts indicate the volume of business outstanding and do not represent amount at risk.

2008	Group			
	Principal amount RM'000	Positive fair value of derivative contract RM'000	Credit equivalent amount * RM'000	Risk weighted amount * RM'000
Direct credit substitutes	1,794	-	1,794	1,754
Transaction-related contingent items	8,100	-	4,050	4,050
Short-term self-liquidating trade-related contingencies	12,909	-	2,582	2,533
Irrevocable commitments to extend credit:				
- Maturity not exceeding one year	1,170,157	-	234,031	227,947
- Maturity exceeding one year	511	-	255	193
Unutilised credit card lines	126,160	-	25,232	18,924
Sell and buy back agreement	218,306	-	218,306	218,306
Equity related contract				
- Less than one year	31,112	1,086	2,952	590
- One year to less than five years	106,926	5,717	14,271	2,855
	<b>1,675,975</b>	<b>6,803</b>	<b>503,473</b>	<b>477,152</b>
		<b>Note f</b>		

\* The credit equivalent and risk weighted amount is computed using credit conversion factors and risk weighting rules as per Bank Negara Malaysia guidelines. From 2008 onwards, the credit conversion factors and risk weighting rules were based on Basel 2 Standardised Approach under the Capital Adequacy Framework for Islamic Banks "CAFIB". Comparative information is not required for the first time adoption and disclosure of the CAFIB requirements.

#### 41 Operations of Islamic Banking (Cont'd)

##### (w) Profit Rate Risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows of the Islamic banking operations. The following table indicates the effective profit rates at the balance sheet date and the periods of repricing or maturity, whichever is earlier.

2008	<i>Group</i>							Effective profit rate %	
	Up to 1 month RM'000	>1 - 3 months RM'000	Non-trading book			Non-profit sensitive RM'000	Trading book RM'000		Total RM'000
			>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
<b>ASSETS</b>									
Cash and short term funds	971,974	-	-	-	-	37,109	-	<b>1,009,083</b>	3.26
Securities held-for-trading	-	-	-	-	-	-	267,738	<b>267,738</b>	3.09
Securities available-for-sale	10,000	20,046	419,567	115,948	-	-	-	<b>565,561</b>	4.09
Financing, advances and other loans									
- performing	339,884	558,240	426,231	1,336,046	249,748	9,544	-	<b>2,919,693</b>	7.90
- non-performing *	-	-	-	-	-	7,338	-	<b>7,338</b>	-
Others	-	-	-	-	-	206,991	7,004	<b>213,995</b>	-
<b>TOTAL ASSETS</b>	<b>1,321,858</b>	<b>578,286</b>	<b>845,798</b>	<b>1,451,994</b>	<b>249,748</b>	<b>260,982</b>	<b>274,742</b>	<b>4,983,408</b>	
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>									
Deposits from customers	1,833,611	632,140	465,946	23,284	-	289,360	-	<b>3,244,341</b>	2.86
Deposits and placements of banks and other financial institutions	31,548	70,441	721,413	145,893	-	-	-	<b>969,295</b>	3.27
Bills and acceptances payable	-	-	-	-	-	1,053	-	<b>1,053</b>	-
Others	-	-	-	-	-	78,104	6,803	<b>84,907</b>	-
<b>Total Liabilities</b>	<b>1,865,159</b>	<b>702,581</b>	<b>1,187,359</b>	<b>169,177</b>	<b>-</b>	<b>368,517</b>	<b>6,803</b>	<b>4,299,596</b>	
Shareholders' Equity	-	-	-	-	-	683,812	-	<b>683,812</b>	
<b>Total Liabilities and Shareholders' Equity</b>	<b>1,865,159</b>	<b>702,581</b>	<b>1,187,359</b>	<b>169,177</b>	<b>-</b>	<b>1,052,329</b>	<b>6,803</b>	<b>4,983,408</b>	
On-balance sheet profit sensitivity gap	(543,301)	(124,295)	(341,561)	1,282,817	249,748	(791,347)	267,939	-	
<b>Total profit sensitivity gap</b>	<b>(543,301)</b>	<b>(124,295)</b>	<b>(341,561)</b>	<b>1,282,817</b>	<b>249,748</b>	<b>(791,347)</b>	<b>267,939</b>	<b>-</b>	

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

**41 Operations of Islamic Banking (Cont'd)**

**(w) Profit Rate Risk (Cont'd)**

2007	<i>Group and Bank</i>							Effective profit rate %	
	Up to 1 month RM'000	>1 - 3 months RM'000	Non-trading book			Non-profit sensitive RM'000	Trading book RM'000		Total RM'000
			>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
<b>ASSETS</b>									
Cash and short term funds	1,138,941	-	-	-	-	105	-	<b>1,139,046</b>	3.53
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	-	-
Dealing securities								-	-
Securities available-for-sale	5,007	9,999	282,316	524,605	-	-	-	<b>821,927</b>	3.90
Financing, advances and other loans									
- performing	778,556	609,647	50,897	1,244,980	272,002	-	-	<b>2,956,082</b>	7.50
- non-performing *	-	-	-	-	-	5,383	-	<b>5,383</b>	-
Others	-	-	-	-	-	100,173	-	<b>100,173</b>	-
<b>TOTAL ASSETS</b>	<b>1,922,504</b>	<b>619,646</b>	<b>333,213</b>	<b>1,769,585</b>	<b>272,002</b>	<b>105,661</b>	-	<b>5,022,611</b>	
<b>LIABILITIES AND ISLAMIC BANKING CAPITAL FUNDS</b>									
Deposits from customers	1,603,122	555,767	1,094,114	1,624	-	68,484	-	<b>3,323,111</b>	3.35
Deposits and placements of banks and other financial institutions	5,772	-	-	-	-	-	-	<b>5,772</b>	3.43
Others	921,026	-	-	-	-	151,558	-	<b>1,072,584</b>	3.53
<b>Total Liabilities</b>	<b>2,529,920</b>	<b>555,767</b>	<b>1,094,114</b>	<b>1,624</b>	-	<b>220,042</b>	-	<b>4,401,467</b>	
Islamic Banking Capital Funds	-	-	-	-	-	621,144	-	<b>621,144</b>	
<b>Total Liabilities and Islamic Banking Capital Funds</b>	<b>2,529,920</b>	<b>555,767</b>	<b>1,094,114</b>	<b>1,624</b>	-	<b>841,186</b>	-	<b>5,022,611</b>	
On-balance sheet profit sensitivity gap	(607,416)	63,879	(760,901)	1,767,961	272,002	(735,525)	-	-	
Off-balance sheet interest sensitivity gap								-	
<b>Total profit sensitivity gap</b>	<b>(607,416)</b>	<b>63,879</b>	<b>(760,901)</b>	<b>1,767,961</b>	<b>272,002</b>	<b>(735,525)</b>	-	-	

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



#### 41 Operations of Islamic Banking (Cont'd)

##### (x) Fair Values of Financial Assets and Liabilities

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

	<i>Group</i>			
	2008		2007	
	Carrying amount RM'000	Fair Value RM'000	Carrying amount RM'000	Fair Value RM'000
<b>Financial Assets</b>				
Cash and short term funds	1,009,083	1,009,083	1,139,046	1,139,046
Securities held-for-trading	267,738	267,738	-	-
Securities available-for-sale	565,561	565,561	821,927	821,927
Financing, advances and other loans	2,927,031	2,883,929	2,961,465	2,903,919
<b>Financial Liabilities</b>				
Deposits from customers	3,244,341	3,255,714	3,323,111	3,334,398
Deposits and placements of banks and other financial institutions	969,295	904,351	5,772	5,772
Bills and acceptances payable	1,053	1,053	-	-

	<i>Bank</i>			
	2008		2007	
	Carrying amount RM'000	Fair Value RM'000	Carrying amount RM'000	Fair Value RM'000
<b>Financial Assets</b>				
Cash and short term funds	-	-	1,139,046	1,139,046
Securities held-for-trading	-	-	-	-
Securities available-for-sale	-	-	821,927	821,927
Financing, advances and other loans	-	-	2,961,465	2,903,919
<b>Financial Liabilities</b>				
Deposits from customers	-	-	3,323,111	3,334,398
Deposits and placements of banks and other financial institutions	-	-	5,772	5,772

The methods and assumptions used to estimate the fair values of the financial assets and financial liabilities of the operations of Islamic Banking are as stated in Note 37.

#### **41 Operations of Islamic Banking (Cont'd)**

---

##### **(y) Shariah Committee**

In line with Bank Negara Malaysia's "Guidelines on the Governance of Shariah Committee for The Islamic Financial Institutions" known as BNM/GPS 1, the following Shariah scholars were appointed:

- 1) Dr. Mohamad Akram Laldin, Assistant Professor at International Islamic University of Malaysia. He is a graduate of University of Jordan, Shariah Department and a Ph.D holder in Islamic Law from the University of Edinburgh, Scotland.
- 2) Dr. Rusni binti Hassan, Assistant Professor of Law at International Islamic University of Malaysia. She holds a double degree, LLB and LLB (Shariah), Master as well as Ph.D in Law from the same university.
- 3) Khairul Anuar bin Ahmad, lecturer with Selangor Islamic College University. He holds a Bachelor and Master of Shariah from University of Malaya.

Monthly meetings are held to discuss Shariah issues complemented by ad-hoc meetings to resolve urgent Shariah matters. The Committee peruse all the documents from inception of a product, to documentation and marketing to ensure that the process flow complies with Shariah at all times. No major Shariah issues were raised and none remain unresolved.

A Shariah Co-ordinator was employed to support the Shariah function and the Committee. This role will include Shariah Audit, Shariah review of operations and other relevant Shariah work.

#### 42 Significant Event

- a. HSBC Amanah Malaysia Berhad ("HSBC Amanah"), a fully owned subsidiary of the Bank was incorporated on 26 February 2008.

Pursuant to the order of the High Court of Malaya which was obtained on 10 July 2008, the Bank's Islamic banking business was vested to HSBC Amanah on 24 August 2008 in accordance with the terms and conditions of the business transfer agreement entered into between the Bank and HSBC Amanah dated 1 July 2008.

The assets and liabilities of the Bank's Islamic banking business that were transferred to HSBC Amanah are as follows:-

	<b>RM'000</b>
<b>Assets transferred</b>	
Cash and short term funds	2,858,449
Securities available for sale	646,190
Financing, advances and other loans	3,157,602
Other assets	69,945
Statutory deposits with Bank Negara Malaysia	100,900
Equipment	349
Intangible assets	109
Deferred tax asset	15,909
	<u>6,849,453</u>
<b>Liabilities transferred</b>	
Deposits from customers	5,058,617
Deposits and placements of banks and other financial institutions	133,247
Other liabilities	998,189
	<u>6,190,053</u>
<b>Net assets transferred</b>	<u>659,400</u>

#### 43 Subsequent Event

As part of an internal re-organisation exercise, the Bank has become a direct wholly owned subsidiary of the Hongkong Shanghai Banking Corporation Limited, Hong Kong with effect from 1 January 2009. Prior to this, the Bank was a direct wholly owned subsidiary of HSBC Holdings BV.

#### 44 Comparative Figures

##### a. Restatement of Comparative Figures

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

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

	<i>Group</i>		<i>Bank</i>	
	As restated	As previously stated	As restated	As previously stated
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<i>Balance Sheet as at 31 Dec 2007</i>				
Deposits from customers	36,314,839	36,173,674	36,314,860	36,173,695
Deposits and placements of banks and other financial institutions	4,441,901	4,583,066	4,441,901	4,583,066