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

FINANCIAL STATEMENTS – 31 DECEMBER 2011

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

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BOARD OF DIRECTORS

Mr.Peter Wong Tung Shun, Chairman
Non-Independent Non-Executive Director

Mr. Mukhtar Malik Hussain
Non-Independent Executive Director/ Deputy Chairman and Chief Executive Officer

Mr. Jonathan William Addis
Non-Independent Executive Director/Deputy Chief Executive Officer
(resigned on 1 September 2011)

Mr Baldev Singh s/o Gurdial Singh
Non-Independent Executive Director/Chief Financial Officer
(appointed on 10 November 2011)

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

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

Ching Yew Chye
Independent Non-Executive Director

PROFILE OF DIRECTORS

Peter Wong Tung Shun
Non-Independent Non-Executive Director /Chairman

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

Mr Wong is currently the Chief Executive of The Hongkong and Shanghai Banking Corporation Limited, a Group Managing Director and a member of the Group Management Board of HSBC Holdings plc. In addition, he is the Chairman of HSBC Bank (China) Company Limited, a member of the General Committee for the Hong Kong General Chamber of Commerce and a Non-Executive Director of Bank of Communications Co. Limited, Cathay Pacific Airways Limited, Hang Seng Bank Limited and Ping An Insurance (Group) Company of China Limited.

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

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

In addition to his current role, he is also the Global Chief Executive Officer of HSBC Amanah. Mr Hussain is also the Chairman of HSBC Amanah Takaful (Malaysia) Sdn Bhd and Non-Executive Director of HSBC Bank Middle East Limited and HSBC Amanah Malaysia Berhad.

Profile of Directors (Cont'd)

Mr Baldev Singh s/o Gurdial Singh
Non-Independent Executive Director/Chief Financial Officer

Mr Baldev was appointed recently on 10 November 2011. He graduated from University Malaya with a Bachelor of Economic (Honours), majoring in Accounting and is a Fellow of the Malaysian Institute of Tax. He began his career with Inland Revenue Board and moved on to work for Price WaterHouse prior to joining HSBC in 1983. Since then, he has held a number of senior positions within the Bank and has been the Bank's Chief Financial Officer for the past 14 years.

In addition to his current role as Executive Director and Chief Financial Officer of HSBC Bank Malaysia Berhad, Mr Baldev is also the Chairman of HSBC Malaysia Trustee Berhad and a non-executive director of HSBC Software Development (M) Sdn Bhd.

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

Tan Sri Dato' Sulaiman was appointed on 10 January 1994. He is the Chairman of the Nominating Committee and a member of the Audit Committee and Risk Management Committee of the Bank. Tan Sri Dato' Sulaiman graduated from the Royal Air Force College, Cranwell, England in 1958 and the Royal College of Defence Studies, London in 1973. He was the first Malaysian to be appointed as the Royal Malaysian Air Force Chief in 1967. In 1977, he served as an Adviser of Bank Negara Malaysia until 1983. He was then appointed as Commercial Director of Kumpulan Guthrie (1983-1989) and Deputy Chairman of Malaysia Airlines System (1977-2001). He joined the Bank in 1989 as an Executive Director and Adviser for 10 years before being appointed as a Non-Executive Director in 2004.

Tan Sri Dato' Sulaiman also sits on the board of FACB Industries Berhad, Nationwide Express Courier Services Berhad and Cycle & Carriage Bintang Berhad.

Dato' Henry Sackville Barlow
Independent Non-Executive Director

Dato' Barlow was appointed on 10 January 1994. He is the Chairman of the Risk Management Committee and a member of the Audit Committee of the Bank. Dato' Barlow graduated from Eton College and obtained a Bachelor of Arts and a Master of Arts from Cambridge University, United Kingdom. He was formerly Joint Managing Director of Highlands and Lowlands Para Rubber Co. Ltd., being instrumental in the company's Malaysianisation process in the late 1970s and early 1980s. He is also former Council Member of the Incorporated Society of Planters and Honorary Secretary of the Heritage Trust of Malaysia.

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

Profile of Directors (Cont'd)

Datuk Ramli bin Ibrahim
Independent Non-Executive Director

Datuk Ramli was appointed on 1 January 1996. He is the Chairman of the Audit Committee and a member of the Risk Management Committee and Nominating Committee of the Bank. Datuk Ramli is a Chartered Accountant from the Institute of Chartered Accountants of Australia. He began his career with Peat Marwick Mitchell & Co. He was appointed as Managing Partner of KPMG Peat Marwick Malaysia (now known as KPMG Malaysia) from 1989 until 1995 and then served as Executive Chairman of Kuala Lumpur Options and Financial Futures Exchange Berhad until 2000.

Datuk Ramli also sits on the board of several other public listed and unlisted companies including MEASAT Global Berhad, BCT Technology Berhad, AEON Company (M) Berhad and AEON Credit Service (M) Berhad. He is also the Deputy Chairman of the Kuala Lumpur Rotary Charity Foundation.

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

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

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

Ching Yew Chye
Independent Non-Executive Director

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

Mr Ching also sits on the board of Avenue Invest Berhad, Petronas Chemicals Group Berhad and Genting Plantations Berhad.

BOARD RESPONSIBILITY AND OVERSIGHT

BOARD OF DIRECTORS

Composition of the Board

At the date of this report, the Board consists of eight (8) members; comprising two (2) non-independent executive Directors, one (1) non-independent non-executive Director and five (5) independent non-executive Directors. The Bank has also obtained Bank Negara Malaysia's approval to have two (2) executive Directors on the Board notwithstanding that paragraph 2.27 of the Revised BNM/GP1 stipulated that the executive director on the board should not be more than one.

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 separation between the roles of Chairman and Chief Executive Officer to ensure an appropriate balance of role, responsibility, authority and accountability. The Board of Directors is led by Mr Peter Wong Tung Shun as the Chairman, Non-Executive Non-Independent Director and the management of the Bank is led by Mr Mukhtar Malik Hussain, the Chief Executive Officer, Non-Independent Executive Director. Paragraph 2.37 of the Revised BNM/GP 1 prescribes that the Chairman of the Board should be in a non-executive capacity and should not have an executive position or responsibility at the parent or related institutions. However, the Bank has obtained Bank Negara Malaysia's endorsement for Mr. Peter Wong to continue as the Chairman of the Bank until year 2013.

Roles and Responsibilities of the Board

The primary responsibility of the Board of Directors is to adopt an effective and high standard of corporate governance practices by the Bank which include reviewing and approving the Bank's strategies; the annual business plans and performance targets; the significant policies and procedures for monitoring and control of operations; appointments of the key senior officer; acquisitions and disposals above pre-determined thresholds; and monitor the management's performance in implementing all these.

The Board of Directors also carries out other various functions and responsibilities as laid down by the guidelines and directives issued by Bank Negara Malaysia from time to time.

Frequency and Conduct of Board Meetings

To discharge their duties effectively, the Board has met six (6) times during the year.

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

Board Responsibility and Oversight (Cont'd)

BOARD OF DIRECTORS (Cont'd)

Frequency and Conduct of Board Meetings (Cont'd)

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

The Revised BNM/GP1 requires Non-Executive Directors to have a minimum attendance of at least 75% of all meetings. All non-executive Directors have complied with the requirements except for the Chairman due to unexpected and unavoidable circumstances.

The attendance of Directors at the Board meetings held in the financial year ended 31 December 2011 were as follows:

Name of members	Independent/ Non-Independent	Attendance and number of meetings
Peter Wong Tung Shun	Chairman Non-Independent Non-Executive Director	4 / 6
Mukhtar Malik Hussain	Deputy Chairman and Chief Executive Officer Non-Independent Executive Director	6 / 6
Jonathan William Addis *[resigned on 1 September 2011]*	Deputy Chief Executive Officer Non-Independent Executive Director	4 / 4
Baldev Singh *[appointed on 10 November 2011]*	Chief Financial Officer Non-Independent Executive Director	1 / 1
Tan Sri Dato' Sulaiman bin Sujak	Independent Non-Executive Director	6 / 6
Dato' Henry Sackville Barlow	Independent Non-Executive Director	5 / 6
Datuk Ramli bin Ibrahim	Independent Non-Executive Director	6 / 6
Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem	Independent Non-Executive Director	6 / 6
Ching Yew Chye	Independent Non-Executive Director	6 / 6

Board Responsibility and Oversight (Cont'd)

BOARD COMMITTEES

The Board of Directors has established Board Committees to assist them in the overall management and the running of the Bank's business operations. The appointments of the members to these committees were approved by the Board of Directors upon recommendation by the Nominating Committee. The functions and the terms of reference of each committee, as well as authority delegated by the Board of Directors to these committees, have been clearly defined by the Board of Directors.

The Board Committee in the Bank is as follows:

- Audit Committee
- Risk Management Committee
- Nominating Committee
- Connected Party Transactions Committee
- Executive Committee
- Asset and Liability Management Committee

Pursuant to the Revised BNM/GP1, the Risk Management Committee and Nominating Committee were established in 2006 in addition to the existing Audit Committee which was established since 1994. The Revised BNM/GP1 also requires the Board to establish a Remuneration Committee but the Bank has obtained an exemption from Bank Negara Malaysia on 28 April 2006 from this requirement.

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

In addition to the above Board Committees, 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.

AUDIT COMMITTEE

Composition

The present members of the Committee are as follows:

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

Frequency of the Meetings

A total of seven (7) Audit Committee meetings were held during the financial year 2011 and all members attended every meeting held.

Terms of Reference

The Terms of Reference of the Committee was revised and tabled at the meeting held on 09 November 2011 and subsequently approved at the Board of Directors meeting held on 10 November 2011.

Membership

The Committee shall comprise not less than three members. All members shall be non-executive directors of which the majority should be independent[1] non-executive directors.

The Chairman of the Committee shall be appointed by the Board Members of the Committee and the Chairman shall be appointed subject to endorsement by Group Audit Committee.

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

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

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

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Meetings and Quorum

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

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

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

Objective

The Committee shall be accountable to the Board[2] and shall have non-executive responsibility for oversight of and advice to the Board on matters relating to financial reporting.

Responsibilities of the Committee

Without limiting the generality of the Committee's objective, the Committee shall have the following non-executive responsibilities, powers, authorities and discretions:

1. To monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance or supplementary regulatory information, reviewing significant financial reporting judgements contained in them. In reviewing the Company's financial statements before submission to the Board[2], the Committee shall focus particularly on:

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

   In regard to the above:

   (i) members of the Committee shall liaise with the Board[2], members of senior management, 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, highlighted 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.

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

3. To review and discuss with management the effectiveness of the Company's internal control systems relating to financial reporting and, where appropriate, to endorse the content of the statement relating to internal controls over financial reporting in the annual report for submission to the Board[2].

Board Responsibility and Oversight (Cont'd)

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

4. To monitor and review the effectiveness of the internal audit function, consider the major findings of internal investigations and management's response, and ensure that the internal audit function is adequately resourced, has appropriate standing within the Company and is free from constraint by management or other restrictions. Where applicable, the Committee shall recommend to the Board[2] the appointment and removal of the Head of Internal Audit.

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

6. To make recommendations to the Board[2], 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 shall be directly responsible for the approval of the remuneration and terms of engagement of the external auditor.

7. 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.

8. To implement the HSBC Group[3] 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; and 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 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.

9. To review the external auditor's annual report on the progress of the audit, its management letter, any material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control and, in each case, responses from management. Any material issues arising which relate to the management of risk or internal controls (other than internal financial controls) shall be referred to the Risk Management Committee as appropriate.

10. To require a timely response to be provided to the financial reporting and related control issues raised in the external auditor's management letter.

11. 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 judgmental 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 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).

Board Responsibility and Oversight (Cont'd)

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

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

13. To consider any findings of major investigations of internal control over financial reporting matters as delegated by the Board[2] or on the Committee's initiative and assess management's response.

14. 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.

15. To provide to the Board[2] 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[2] 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 or Group Risk Committee may approve) for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters[5].

18. To report any significant actual, suspected or alleged fraud (involving misconduct or unethical behaviour related to financial reporting) or misrepresentation of assets to the committee responsible for oversight of risk within the Company.

19. To agree with the Board[2] the Company's policy for the employment of former employees of the external auditor, within the terms of the HSBC Group's[4] policy.

20. The Committee shall meet alone 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.

21. Where applicable to review the composition, powers, duties and responsibilities of subsidiaries' non-executive audit committee. The Group Audit Committee and/or Group Risk Committee (as appropriate) will review the core terms of reference for adoption by such committees and approve material deviations from such core terms.

22. To undertake or consider on behalf of the Chairman or the Board[2] such other related tasks or topics as the Chairman or the Board[2] may from to time entrust to it.

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.

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

24. The Committee shall review annually the Committee's terms of reference and its own effectiveness and recommend to the Board[2] any necessary changes.

25. To report to the Board[2] 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 are to include a statement that the members of the Committee are independent.[1]

27. To review any related party transactions that may arise within the Company and the HSBC Group[4].

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.

The Committee may consider any matter relating to, and may request any information as it considers appropriate, from any audit committee, risk committee or other committee which has responsibility for the oversight of risk within the Company.

Where there is a perceived overlap of responsibilities between this Committee and the Risk Management Committee, the respective Committee Chairmen shall have the discretion to agree the most appropriate Committee to fulfill any obligation. An obligation under the terms of reference of this Committee or the Risk Management Committee will be deemed by the Board[2] to have been fulfilled providing it is dealt with by either the Committee.

Where the Committee's monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendations to the Board[2] on action needed to address the issue or to make improvements and shall report any such concerns to the Group Audit Committee and/or Group Risk Committee as appropriate; or to any audit and/or risk committee of an intermediate holding company as appropriate.

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.

Board Responsibility and Oversight (Cont'd)

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Notes

1. The determination of independence should take into account the following:
   - if the director has been an employee of the company or group within the last five years;
   - if the director has, or has had within the last two years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;
   - if the director has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or a performance-related pay scheme, or is a member of the company's pension scheme;
   - if the director has close family ties with any of the company's advisers, directors or senior employees;
   - if the director holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
   - if the director represents a significant shareholder;
   - if the director has served on the board for more than nine years from the date of their first election;
   - the definition of an independent director under the BNM GP-1. In the event of any inconsistency between GP1 and the above critera, the higher standard shall prevail; and
   - any other circumstances which might, or might be perceived, to compromise the ability of the committee member to reach an objective and impartial decision about matters relating to the company, its business or its customers. For example, the independence of a lawyer, accountant, auditor, or business associate of a customer would need to be considered carefully in relation to the affairs of that customer.

2. In the context of these terms of reference, "HSBC Board" means the Board of HSBC Holdings plc and "Board" means the Board of HSBC Bank Malaysia Bank Berhad.

3. Appointments shall be subject to the endorsement of the Group Audit Committee which will wish to be satisfied that there are no circumstances which compromise the individual's independence.

4. In the context of these terms of reference, 'HSBC Group' means HSBC Holdings plc and its subsidiaries and 'Group' means the group of companies headed by HSBC Bank Malaysia Bank Berhad.

5. A system is in place for a Group Disclosure Line (or such other system as the Group Audit Committee may approve). Unless prohibited by law, it is recommended that this system be used, in which case the Committee should discharge this responsibility by ensuring that the system is accessible within the areas in which the Company operates.

RISK MANAGEMENT COMMITTEE

Composition

The present members of the Committee are as follows:

Dato' Henry Sackville Barlow (Chairman)
Tan Sri Dato' Sulaiman bin Sujak
Datuk Ramli bin Ibrahim
Ching Yew Chye

Frequency of the Meetings

A total of four (4) Risk Management Committee meetings were held during the financial year of 2011 and all members attended every meeting held.

Terms of Reference

The Terms of Reference of the Committee was revised and tabled at the meeting held on 09 November 2011 and subsequently approved at the Board of Directors meeting held on 10 November 2011.

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 appointed by the Board[2]. Members of the Committee and the Chairman shall be subject to endorsement by Group Risk Committee.

The Chairman of the Committee shall be an independent[1] non-executive director. The Board[2] may from time to time appoint[3] to the Committee additional members it has determined to be independent. In the absence of sufficient independent non-executive directors, the Board[2] may appoint individuals from elsewhere in the HSBC Group[4] with no line or functional responsibility for the activities of the Company. 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.

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[1] 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[1] non-executive director.

Objective

The Committee shall be accountable to the Board[2] and shall have non-executive responsibility for oversight of and advice to the Board[2] on matters relating to high level risk related matters and risk governance.

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.

Board Responsibility and Oversight (Cont'd)

RISK MANAGEMENT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee

Without limiting the generality of the Committee's objective, the Committee shall have the following non-executive responsibilities, powers, authorities and discretions :

1.1 To oversee and advise the Board on all high-level risk related matters.

In providing such oversight and advice to the Board[2], the Committee shall oversee (i) current and forward-looking risk exposures; (ii) the Company's risk appetite and future risk strategy, including capital and liquidity management strategy; and (iii) management of risk within the Company.

1.2 To advise the Board[2] on risk appetite and tolerance in determining strategy.

In preparing advice to the Board[2] on risk appetite and tolerance the Committee shall (i) satisfy itself that risk appetite informs the Company's strategy; (ii) seek such assurance as it may deem appropriate that account has been taken of the current and prospective macroeconomic and financial environment, drawing on financial stability assessments published by authoritative sources that may be relevant; (iii) review and approve the methodology used in establishing the Company's risk appetite including for example risk asset ratios, limits on exposures and concentrations, leverage ratios, economic capital ratios and stress and scenario testing; and (iv) review the results of appropriate stress and scenario testing.

1.3 To advise the Board[2] on alignment of remuneration with risk appetite.

1.4 To consider and advise the Board[2] on the risks associated with proposed strategic acquisitions or disposals as requested from time to time by any Director in consultation with the Chairman of the Committee. In preparing such advice the Committee shall satisfy itself that a due diligence appraisal of the proposition is undertaken, focusing in particular on risk aspects and implications for the risk appetite and tolerance of the HSBC Group[4], drawing on independent external advice where appropriate and available, before the Board[2] takes a decision whether to proceed.

1.5 To require regular risk management reports from management which:

(i) enable the Committee to assess the risks involved in the Company's business and how they are controlled and monitored by management; and
(ii) give clear, explicit and dedicated focus to current and forward-looking aspects of risk exposure which may require a complex assessment of the Company's vulnerability to hitherto unknown or unidentified risks.

1.6 To review the effectiveness of the Company's risk management framework and internal control systems (other than internal financial control systems). In undertaking this responsibility the Committee shall:

(i) satisfy itself that there are adequate procedures for monitoring in a sufficiently timely and accurate manner, large exposures or risk types whose relevance may become of critical importance;
(ii) satisfy itself that there are adequate procedures in place for requiring compliance with HSBC Group[4] policies;
(iii) consider any material findings from regulatory reviews and interactions with regulators in relation to risk governance or risk assessment or management process;
(iv) discuss the internal control systems with management and satisfy itself that management has discharged its duty to have an effective internal control system. The Bank's Audit Committee shall have primary responsibility in this regard in relation to internal financial controls;
(v) satisfy itself that the risk management function is adequately resourced (including taking into account qualifications and experience of staff and training programmes and budget), has appropriate standing within Company and is free from constraint by management or other restrictions; and

Board Responsibility and Oversight (Cont'd)

RISK MANAGEMENT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

(vi) seek assurance from internal audit that internal control processes for risk management are adequate for the strategy determined by the Board[2].

1.7 Where applicable, the Committee shall approve the appointment and removal of the Chief Risk Officer. The Committee shall seek such assurance as it may deem appropriate that the Chief Risk Officer:

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

(ii) has satisfied himself or herself that risk originators in the business units are aware of and aligned with the Company's risk appetite;

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

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

(v) cannot be removed from office without the prior agreement of the Board[2]; and

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

1.8 To seek to embed and maintain throughout the Company a supportive culture in relation to the management of risk and maintenance of internal controls alongside prescribed rules and procedures.

1.9 To review any issue which arises from any report from internal audit, the external auditor's annual report on the progress of the external audit, the management letter from the external auditor, any queries raised by the external auditor to management or, in each case, responses from management, which relates to the management of risk or internal control and has been referred to the Committee by the Audit Committee or as this Committee shall consider appropriate.

1.10 To require a timely response to be provided by management on material issues relating to the management of risk or internal control (other than internal financial control) raised in the external auditor's management letter which are considered by the Committee.

1.11 To review and endorse the content of the statements made in relation to internal controls (other than internal financial controls) in the annual report and accounts for submission to the Board.

1.12 Where applicable, to (i) review at least annually the terms of reference for the executive risk management meetings; and (ii) to review the minutes of such meetings and such further information as the executive risk management meeting may request from time to time.

1.13 To provide to the Board[2] such additional assurance as it may reasonably require regarding the reliability of risk information submitted to it.

1.14 Where applicable, to review the composition, powers, duties and responsibilities of subsidiaries' risk management committees. The Group Risk Committee will review the core terms of reference for adoption by such committees and approve material deviations from such core terms.

1.15 To undertake or consider on behalf of the Chairman or the Board[2] such other related tasks or topics as the Chairman or the Board[2] may from to time entrust to it.

Board Responsibility and Oversight (Cont'd)

RISK MANAGEMENT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

1.16 The Committee may appoint, employ or retain such professional advisors as the Committee may consider appropriate. In particular, the Committee shall consider whether external advice on risk matters should be taken to challenge analysis undertaken and assessments made by the Committee and the risk management function, for example an external advisor might be asked for input on the stress and scenario testing of a business strategy. Any such appointment shall be made through the Secretary to the Committee, who shall be responsible for the contractual arrangements and payment of fees by the Company on behalf of the Committee.

1.17 The Committee shall review annually the Committee's terms of reference and its own effectiveness and recommend to the Board[2], any necessary changes.

1.18 To report to the Board[2] on the matters set out in these terms of reference.

2. The Committee may consider any matter relating to, and may request any information as it considers appropriate, from any audit committee, risk committee or other committee which has responsibility for the oversight of risk within the Company.

Where there is a perceived overlap of responsibilities between the Company's Audit Committee and Risk Committee, the respective Committee Chairmen shall have the discretion to agree the most appropriate Committee to fulfill any obligation. An obligation under the terms of reference of the Company's Audit Committee or the Risk Committee will be deemed by the Board[2] to have been fulfilled providing it is dealt with by either of the Committees.

Where the Committee's monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendations to the Board[2] on action needed to address the issue or to make improvements and shall report any such concerns to the Group Audit Committee and/or Group Risk Committee as appropriate; or to any audit and/or risk committee of an intermediate holding company as appropriate.

Board Responsibility and Oversight (Cont'd)

RISK MANAGEMENT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

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.

Notes

1. The determination of independence should take into account the following:

   - if the director has been an employee of the company or group within the last five years;
   - if the director has, or has had within the last three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;
   - if the director has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or a performance-related pay scheme, or is a member of the company's pension scheme;
   - if the director has close family ties with any of the company's advisers, directors or senior employees;
   - if the director holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
   - if the director represents a significant shareholder;
   - if the director has served on the board for more than nine years from the date of their first election;
   - the definition of an independent director under the BNM GP-1. In the event of any inconsistency between GP-1 and the above criteria, the higher standard shall prevail; and
   - any other circumstances which might, or might be perceived, to compromise the ability of the committee member to reach an objective and impartial decision about matters relating to the company, its business or its customers. For example, the independence of a lawyer, accountant, auditor, or business associate of a customer would need to be considered carefully in relation to the affairs of that customer.

2. In the context of these terms of reference, "HSBC Board" means the Board of HSBC Holdings plc and "Board" means Board of HSBC Bank Malaysia Berhad.

3. Appointments shall be subject to the endorsement of the Group Risk Committee, which will wish to be satisfied that there are no circumstances which compromise the individual's independence.

4. In the context of these terms of reference, "HSBC Group" means HSBC Holdings plc and its subsidiaries and "Group" means the group of companies headed by HSBC Bank Malaysia Berhad.

5. A system is in place for a Group Disclosure Line (or such other system as the Group Audit Committee may approve). Unless prohibited by law, it is recommended that this system be used, in which case the Committee should discharge this responsibility by ensuring that the system is accessible within the areas in which the Company operates.

NOMINATING COMMITTEE

Composition

The present members of the Committee are as follows:

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

Frequency of the Meetings

A total of six (6) meetings were held during the financial year of 2011 and all members attended every meeting held except for Mukhtar Malik Hussain who missed one meeting due to unexpected and unavoidable circumstances.

Terms of Reference

The Terms of Reference was revised and tabled at the meeting held on 28 July 2011 and subsequently approved at the Board of Directors meeting held on 28 July 2011.

Membership

The Committee shall consist of a minimum of five (5) members, of which at least four (4) must be non-executive directors. The fifth person shall be an executive, who shall be the Chief Executive Officer of the Bank, and in his absence, the Deputy Chief Executive Officer.

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

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

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 (3) directors, one (1) 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.

Board Responsibility and Oversight (Cont'd)

NOMINATING COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

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, experience and core competencies) required of the Board and make recommendations to the Board with regards to any changes through an annual review;

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

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

1.4 To ensure that there are established performance evaluation processes for the effectiveness of the Board as a whole and the contribution of each director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the CEO and other key Senior Management Officers of the Bank. Annual assessment should be conducted based on objective performance criteria and such performance criteria should be approved by the full Board;

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

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

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

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

1.9 To review the list of key responsible persons and be satisfied that the list is comprehensive and has taken into account all key positions within the Bank.

1.10 To ensure that all key responsible persons fulfill fit and proper requirements and be responsible for conducting assessments of the fitness and propriety of directors, members of Shariah Committee and the CEO. For other key responsible persons, this function may be performed by the CEO or a designated committee under the delegated authority of the Board and the Committee.

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.

Board Responsibility and Oversight (Cont'd)

NOMINATING COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

4. The Committee will not be delegated with decision making powers but shall report its recommendation to the Board for decision.

Written or Circulating Resolution

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

Amendment

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

CONNECTED PARTY TRANSACTIONS COMMITTEE

Composition

The Committee shall consist of at least four (4) members, of which two (2) must be Non-Executive Directors. The present members of the Committee are as follows:

Professor Emeritus Datuk Dr Mohamed Ariff Abdul Kareem
Ching Yew Chye
Chief Risk Officer (vacant)
Edmund Pui (Head of Wholesale and Credit Risk)

The Chief Risk Officer 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.

Terms of Reference

The Terms of Reference was revised and approved at the Board of Directors meeting held on 12 May 2011.

Quorum

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

Meetings and Chairman

The meetings of the Committee may be arranged in any form other than physical meetings. Alternatively, meetings held via teleconferencing or video-conferencing are deemed valid and are in the best interests of the Committee. The Chairman of the meeting shall be elected by the Committee who has formed the quorum.

Written/Circulating Resolution

Any resolution in writing, signed or assented to by a minimum of three (3) members of the Committee, one of whom must be the CRO, 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.

Powers Delegated by the Board

The Committee is delegated with the authority of the Board to approve all corporate/commercial credit transactions less than or below RM5 million (inclusive of existing credit facilities) with a connected party of HSBC Bank Malaysia Berhad ("the Bank"). This authority limit may be changed from time to time as delegated by the Board.

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

- The Bank's Guidelines on Credit Transactions and Exposures with Connected Parties
- Business Instruction Manual - Volume 3 Credit
- Country Risk Plan
- Large Credit Exposure Policy
- Bank Negara Malaysia Guidelines on Single Customer Limit
- Bank Negara Guidelines on Credit Transactions and Exposure with Connected Parties
- Companies Act 1965
- Hong Kong Banking Ordinance
- Applicable laws and regulations

Board Responsibility and Oversight (Cont'd)

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, key reports submitted to the Board during the year include:

- Minutes of the Audit Committee Meetings
- Minutes of the Risk Management Committee Meetings
- Minutes of Nominating Committee Meetings
- Minutes of the Executive Committee Meetings
- Minutes of the Asset and Liability Management Committee Meetings
- Business Progress Report
- Assets and Liabilities Summary
- Profit and Loss Statement
- Key Financial Ratios and Statistics
- Significant Bank Negara Malaysia and HSBC Group's requirements
- Derivatives Outstanding
- Comparative Analysis of Competitor Banks and Competitor Performance Report
- Bank Negara Malaysia's Benchmarking Statistics
- Risk Management Reports on Assets Quality
- Credit Advances Reports
- Update on Basel II
- Update on Sustainability
- Scenario Stress Testing Results
- Reverse Stress Testing Results
- Human Resource Update

INTERNAL AUDIT AND INTERNAL CONTROL ACTIVITIES

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

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

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

HSBC Bank Malaysia Berhad and its subsidiaries' ("the Group") internal audit function monitors compliance with policies, standards and regulatory requirements 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 Internal Audit reports functionally to the Audit Committee and the Regional Head of Operational Risk Management Asia Pacific and administratively to the Chief Executive Officer.

The Audit Committee has kept under review the effectiveness of this system of internal controls 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; 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 of 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 action to be taken by the Group's management team to rectify any deficiencies identified by internal audit and to improve the system of internal controls based on the internal auditors' recommendations for improvements.

RATING BY EXTERNAL RATING AGENCIES

Details of the Bank's ratings are as follows:

Rating Agency	Date	Rating Classification	Ratings Received
Moody's Investors Service	February 2012	- Financial strength rating	C-
		- Foreign currency long term deposits	A3
		- Local currency long term deposits	Aa3
		- Foreign currency short term debt	P-1
		- Local currency short term debt	P-1
		- Outlook	Stable^
RAM Ratings Services Berhad	June 2011	- Long term	AAA
		- Short term	P1
		- Subordinated bonds	AA1
		- Outlook	Stable

^ *Rating under review*

Details of the ratings of the Bank's wholly owned subsidiary, HSBC Amanah Malaysia Berhad are as follows:

Rating Agency	Date	Rating Classification	Ratings Received*
RAM Ratings Services Berhad	October 2011	- Long term	AAA
		- Short term	P1
		- Outlook	Stable

**HSBC Amanah Malaysia Berhad was assigned the above ratings for the first time in 2011*

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

The directors have pleasure in submitting their report and the audited financial statements of HSBC Bank Malaysia Berhad ("the Bank") and its subsidiaries ("the Group") for the year ended 31 December 2011.

Principal Activities

The principal activities of the Group are banking and related financial services, which also include Islamic banking operations. The principal activities of the subsidiary companies are as disclosed in Note 14 to the financial statements.

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

Results

	Group	Bank
Profit for the year attributable to the owner of the Bank	**RM'000**	**RM'000**
Profit before income tax expense	**1,390,784**	**1,292,987**
Income tax expense	**(355,154)**	**(335,921)**
Profit after income expense	**1,035,630**	**957,066**

Dividends

Since the end of the previous financial year, the Bank paid a final dividend for the year ended 2010 of RM1.456 per ordinary share less tax at 25% amounting to RM250 million as proposed in the previous year's directors' report. The dividend was paid on 29 March 2011. The Bank also paid an interim dividend of RM1.164 per ordinary share less tax at 25% amounting to RM200 million in respect of financial year 2011 on 8 September 2011.

The directors now recommend a final dividend of RM1.747 per ordinary share less tax at 25% amounting to RM300 million in respect of the current financial year. This dividend will be recognised in the subsequent financial period upon approval by the owner of the Bank.

Reserves and Provisions

There were no material transfers to or from reserves or provisions during the financial year under review except as disclosed in the financial statements.

Other statutory information

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

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

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

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

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

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

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

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

In the opinion of the directors, the financial performance of the Group and of the Bank for the financial year ended 31 December 2011 has not been substantially affected by any item, transaction, or event of a material and unusual nature, nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Business Strategy during the Year

The Malaysian financial services industry, supported by healthy local consumer demand and robust government and private investment activities, recorded a strong growth in both loans and deposits despite the uncertainty of the global economy. Amidst this backdrop, the Group delivered a very strong performance, achieving the highest profit before tax in history. The Group remains strong in liquidity, capital strength, cost discipline, relationship-banking, product innovation and global distribution capabilities.

RAM Ratings Services Berhad has reaffirmed HSBC Bank Malaysia Berhad's ("the Bank") AAA/P1 ratings, reflecting the Bank's robust asset quality and strong financial standing. Similarly, HSBC Amanah Malaysia Berhad ("HSBC Amanah"), the Bank's wholly owned subsidiary was also assigned ratings of AAA/P1 in its inaugural credit rating exercise during the year. The Bank maintained its market leader position in various segments and won various awards in 2011. Amongst the awards won are:

1. Best Islamic/Most Innovative Islamic Finance Deal of the Year in Southeast Asia (Government of Malaysia's USD1.2 Billion & USD800 Million Wakala Global Sukuk. HSBC was Joint Lead Managers and Joint Bookrunners) – Alpha Southeast Asia
2. Best Debt House – The Asset Triple A Country Awards
3. Best Bank – The Asset Triple A Country Awards
4. Best Foreign Commercial Bank – Finance Asia
5. Best Foreign Bank – Alpha Southeast Asia
6. Best Corporate / Institutional Internet Banking – Global Finance (Country Awards)
7. Best Fund Administrator, Retail Funds - The Asset's 2011 Triple A Securities and Fund Services awards
8. Best Cash Management Bank in Malaysia – Euromoney (Euromoney Cash Management Poll)

The Group is committed to developing products and solutions in response to market trends and has expanded its range of market related products and services accordingly.

The Bank capitalised on its debt capital market leadership to secure key deals, and once again asserted its market leadership position among foreign banks in the debt capital markets by maintaining its position as the No.1 foreign bookrunner for Malaysian Ringgit bonds and Islamic bonds for the fifth consecutive year.

In 2011, the Group continued to expand its branch and delivery network with the opening of 2 additional conventional branches and 7 additional Islamic branches, bringing its total branch network to 57 branches (42 conventional, 15 Islamic). The Group also joined the Malaysian Electronic Payment System ("MEPS"), a shared automatic teller machine ("ATM") network with more than 10,000 ATMs nationwide.

The Group's approach to sustainability is about managing its business successfully, profitably and for the long term. At HSBC Malaysia, our investment in the community is primarily focused on education and the environment because we believe they provide the fundamental building blocks for the development of the society. The Group endeavours to contribute towards changing people's lives and the environment they live in for the better, and encourages active participation from our colleagues in all corporate sustainability initiatives.

Outlook For 2012

With intensified competition from both new and existing competitors, margins will be under pressure. Coupled with the introduction of new Bank Negara Malaysia ("BNM") guidelines on Responsible Financing practices, a move that is anticipated to have an impact on assets growth, the outlook for the local banking sector appears increasingly challenging. Nevertheless, growth in the local financial and insurance sectors in 2012 is still expected to remain resilient, supported by the continued expansion in domestic demand and private sector activities.

The focus in 2012 will remain on growing the Premier and Advance proposition for both the conventional and Islamic banks. The Group intends to increase its current share of high quality assets via the relationship-based approach, by increasing value added offerings, building on cross referrals and cross selling of various banking products (with special emphasis on wealth management services) to the Group's existing customers. As there is a robust demand for Islamic financial services and products, the HSBC Amanah brand name will also be leveraged by the Group to expand its market share of the Islamic financing business both locally and internationally and as a platform to tap into the Government sector. Currently, HSBC Amanah has 16 branches, and more branches are expected to be opened progressively in 2012.

The Group will embark on improving the effectiveness and efficiency of its business model in 2012. The Group will continue to have in place rigorous credit risk management and strict cost control. At the same time, the Group will continue to deliver quality customer service and offer innovative banking products and business solutions, while at the same time deepening relationships with valued clients and customers. The Group remains committed to its objective of becoming the most preferred bank in Malaysia.

Directors and their Interests in Shares

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

Peter Wong Tung Shun
Mukhtar Malik Hussain
Jonathan William Addis (resigned 1 September 2011)
Baldev Singh s/o Gurdial Singh (appointed 10 November 2011)
Tan Sri Dato' Sulaiman bin Sujak
Dato' Henry Sackville Barlow
Datuk Ramli bin Ibrahim
Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem
Ching Yew Chye

In accordance with Articles 77 and 78 of the Articles of Association, Dato' Henry Sackville Barlow shall retire from the Board at the forthcoming Annual General Meeting and being eligible, offers himself for re-election.

In accordance with Article 84 of the Articles of Association, Mr Baldev Singh s/o Gurdial Singh who has been appointed since the last Annual General Meeting shall retire at the forthcoming Annual General Meeting, and being eligible, offers himself for re-election.

In accordance with Section 129(2) of the Companies Act, 1965, Tan Sri Dato' Sulaiman bin Sujak, Datuk Ramli bin Ibrahim and Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem being over seventy years (70) of age, shall retire at the Annual General Meeting, and being eligible, offer themselves for reappointment in accordance with Section 129(6) of the Companies Act, 1965.

The interests and deemed interests in the shares and options over shares of the Bank and of its related corporations (other than wholly-owned subsidiaries) of those who were directors at financial year end (including the interests of the spouses or children of the directors who themselves are not directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

	Number of Shares			
Name	Balance at 1.1.2011 (or at date of appointment)	Bought	(Sold)	Balance at 31.12.2011
HSBC Holdings plc				
Ordinary shares of USD0.50				
Peter Wong Tung Shun	267,524	160,842 (1)	-	428,366 (4)
Mukhtar Malik Hussain	-	388,720 (2)	-	388,720
Baldev Singh s/o Gurdial Singh	14,171	-	-	14,171
Tan Sri Dato' Sulaiman bin Sujak	76,894	3,017 (3)	-	79,911
Dato' Henry Sackville Barlow	1,100,000(*)	-	1,100,000	-
Ching Yew Chye	30,942	1,213 (3)	-	32,155

(1) *Shares were acquired through scrip dividends; partial shares vested from 2010 HSBC Share Plan; and transfer of shares from 2008 and 2011 HSBC Share Plan.*
(2) *Shares were acquired through acquisitions and scrip dividends.*
(3) *Shares were acquired through scrip dividends.*
(4) *Including the interest of spouse.*
(*) Indirect interest held through Majedie Investments Investments plc

Directors' Report (Cont'd)

Directors and their Interests in Shares (Cont'd)

	Number of Shares				
Name	Shares held at 1.1.2011 (or at date of appointment)	Shares issued during year ^	(Shares forfeited during the year)	(Shares vested during the year)	Shares held at 31.12.2011
HSBC Holdings plc					
HSBC Share Plan					
Peter Wong Tung Shun	308,025	255,203	-	156,545	406,683
Mukhtar Malik Hussain	745,330	118,653	-	-	863,983
Baldev Singh s/o Gurdial Singh	7,347	-	-	-	7,347

^ *Includes scrip dividends*

	Number of Options				
Name	Balance at 1.1.2011 (or at date of appointment)	Granted	(Exercised)	(Lapsed)	Balance at 31.12.2011
Options over HSBC Holdings plc Shares					
Mukhtar Malik Hussain	-	4,016	-	-	4,016
Baldev Singh s/o Gurdial Singh	10,916	-	-	-	10,916

None of the other directors holding office at 31 December 2011 had any interest in the ordinary shares and options over shares of the Bank and of its related corporations during the financial year.

Directors' Report (Cont'd)

Directors and their Interests in Shares

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full-time employee of the Bank or of related corporations) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

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

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

Ultimate Holding Company

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

Auditors

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

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

....Director
MUKHTAR MALIK HUSSAIN

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

Kuala Lumpur, Malaysia
16 February 2012

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

DIRECTORS' STATEMENT

In the opinion of the directors:

We, Mukhtar Malik Hussain and Baldev Singh s/o Gurdial Singh 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 37 to 134 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 2011 and of the financial performance and cash flows of the Group and of the Bank for the year then ended.

Signed at Kuala Lumpur, Malaysia this 16 February 2012

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

....Director
MUKHTAR MALIK HUSSAIN

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

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 director 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 37 to 134 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 16 February 2012.

....

BALDEV SINGH s/o GURDIAL SINGH

BEFORE ME:

PESURUHJAYA SUMPAH
W 341
ZULKIFLA MOHD DAHLIM
MALAYSIA

....
Signature of Commissioner for Oaths

106, BANGUNAN LOKE YEW
1 JALAN MAHKAMAH PERSEKUTUAN
50050 KUALA LUMPUR

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

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

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

Report on the Financial Statements

We have audited the financial statements of HSBC Bank Malaysia Berhad, which comprise the statements of financial position as at 31 December 2011 of the Group and of the Bank, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 37 to 134.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Guidelines, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Group and the Bank as of 31 December 2011 and of their financial performance and cash flows for the year then ended.

KPMG

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	Foong Mun Kong
Firm Number: AF 0758	Approval Number: 2613/12/12(J)
Chartered Accountants	Chartered Accountant

Date: 16 February 2012

Petaling Jaya

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

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

		Group		*Bank*	
		31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Assets			Restated		Restated
Cash and short term funds	*6*	**21,603,227**	11,815,604	**20,292,272**	10,658,860
Securities purchased under resale agreements		**3,682,969**	6,467,863	**3,682,969**	6,467,863
Deposits and placements with banks and other financial institutions	*7*	**651,778**	330,981	**3,687,058**	1,471,815
Financial Assets Held-for-Trading	*8*	**6,217,237**	4,895,060	**6,000,521**	4,747,054
Financial Investments Available-for-Sale	*9*	**4,873,818**	3,400,090	**4,451,732**	3,069,425
Loans, advances and financing	*10*	**39,156,932**	34,076,044	**31,610,586**	29,439,768
Other assets	*12*	**1,941,383**	2,023,553	**1,913,656**	1,978,890
Statutory deposits with Bank Negara Malaysia	*13*	**1,096,060**	221,827	**867,498**	187,098
Investments in subsidiary companies	*14*	**-**	-	**660,021**	660,021
Property and equipment	*16*	**354,032**	318,481	**335,106**	302,056
Intangible assets	*17*	**53,263**	60,621	**52,802**	59,122
Deferred tax assets	*18*	**94,245**	168,344	**79,063**	150,342
Total assets		**79,724,944**	63,778,468	**73,633,284**	59,192,314
Liabilities					
Deposits from customers	*19*	**58,523,846**	48,339,424	**53,047,615**	44,556,909
Deposits and placements from banks and other financial institutions	*20*	**9,908,962**	6,853,048	**9,429,554**	6,261,536
Bills and acceptances payable		**521,337**	429,229	**513,737**	423,698
Other liabilities	*21*	**4,762,900**	2,354,493	**4,845,377**	2,277,196
Recourse obligation on loans sold to Cagamas Berhad		**-**	374,991	**-**	374,991
Provision for taxation and zakat	*22*	**53,103**	103,158	**46,265**	98,710
Subordinated bonds	*23*	**1,015,200**	1,003,039	**1,015,200**	1,003,039
Total liabilities		**74,785,348**	59,457,382	**68,897,748**	54,996,079
Equity					
Share capital	*24*	**114,500**	114,500	**114,500**	114,500
Reserves	*25*	**4,525,096**	3,956,586	**4,321,036**	3,831,735
Proposed dividend		**300,000**	250,000	**300,000**	250,000
Total equity attributable to owner of the Bank		**4,939,596**	4,321,086	**4,735,536**	4,196,235
Total liabilities and equity		**79,724,944**	63,778,468	**73,633,284**	59,192,314
Commitments and Contingencies	*38*	**119,168,960**	87,503,362	**116,742,039**	85,680,212

The financial statements were approved and authorised for issue by the Board of Directors on 16 February 2012.

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

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

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

		Group		Bank	
		31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Revenue		**3,989,403**	3,341,908	**3,595,880**	3,084,859
Interest income	*26*	**2,200,121**	1,900,972	**2,252,409**	1,934,545
Interest expense	*26*	**(1,049,302)**	(807,954)	**(1,049,302)**	(807,954)
Net interest income	*26*	**1,150,819**	1,093,018	**1,203,107**	1,126,591
Fee and commission income	*27*	**493,352**	460,741	**493,352**	460,741
Fee and commission expense	*27*	**(24,350)**	(30,149)	**(24,350)**	(30,149)
Net fee and commission income	*27*	**469,002**	430,592	**469,002**	430,592
Net trading income	*28*	**723,616**	549,002	**718,949**	549,002
Income from Islamic banking operations	*29*	**431,267**	322,634	**-**	-
Other operating income	*30*	**33,843**	42,073	**131,170**	140,571
Operating income before impairment losses		**2,808,547**	2,437,319	**2,522,228**	2,246,756
Loans / financing impairment charges and other credit risk provisions	*31*	**(198,048)**	(239,338)	**(73,711)**	(168,494)
Impairment losses on intangible assets		**(5,167)**	-	**(5,167)**	-
Net operating income		**2,605,332**	2,197,981	**2,443,350**	2,078,262
Other operating expenses	*32*	**(1,214,548)**	(1,150,849)	**(1,150,363)**	(1,094,408)
Profit before income tax expense		**1,390,784**	1,047,132	**1,292,987**	983,854
Income tax expense	*33*	**(355,154)**	(281,778)	**(335,921)**	(262,913)
Profit for the year		**1,035,630**	765,354	**957,066**	720,941
Other comprehensive income					
Revaluation reserve:					
Surplus on revaluation property		**11,270**	8,226	**11,270**	8,226
Deferred tax adjustment on revaluation reserve		**(236)**	(850)	**(236)**	(850)
Cash flow hedge		**854**	-	**854**	-
Fair value reserve					
Change in fair value		**10,251**	36,397	**9,872**	37,162
Amount transferred to profit or loss		**(1,432)**	(15,174)	**(1,432)**	(15,174)
Income tax relating to components of other comprehensive income		**(2,417)**	(5,305)	**(2,322)**	(5,497)
Other comprehensive income for the year, net of income tax		**18,290**	23,294	**18,006**	23,867
Total comprehensive income for the year		**1,053,920**	788,648	**975,072**	744,808
Profit attributable to the owner of the Bank		**1,035,630**	765,354	**957,066**	720,941
Total comprehensive income attributable to the owner of the Bank		**1,053,920**	788,648	**975,072**	744,808
Basic earnings per RM0.50 ordinary share	*34*	**452.2 sen**	334.2 sen	**417.9 sen**	314.8 sen
Dividends per RM0.50 ordinary share (net)					
- interim dividend paid		**87.3 sen**	87.3 sen	**87.3 sen**	87.3 sen
- proposed		**131.0 sen**	109.2 sen	**131.0 sen**	109.2 sen

The financial statements were approved and authorised for issue by the Board of Directors on 16 February 2012.

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 2011

	Group											
	Non-distributable								*Distributable*			
	Share capital	*Share premium*	*Statutory reserve*	*Revaluation reserve*	*Capital redemption reserve*	*Available-for-sale reserve*	*Cash flow hedge reserve*	*Capital contribution reserve*	*Retained profit*	*Total reserves*	*Proposed dividends*	*Total shareholder's equity*
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Balance as at 1 January 2010	**114,500**	**741,375**	**154,604**	**133,216**	**190,000**	**(11,406)**	**-**	**74,703***	**2,312,009**	**3,594,501**	**250,000**	**3,959,001**
-effect of adopting FRS 139	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9,284**	**9,284**	**-**	**9,284**
Balance as at 1 January 2010, as restated	**114,500**	**741,375**	**154,604**	**133,216**	**190,000**	**(11,406)**	**-**	**74,703**	**2,321,293**	**3,603,785**	**250,000**	**3,968,285**
Total comprehensive income for the year												
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**765,354**	**765,354**	**-**	**765,354**
-Amount transferred to statutory reserves	**-**	**-**	**9,896**	**-**	**-**	**-**	**-**	**-**	**(9,896)**	**-**	**-**	**-**
Other comprehensive income, net of income tax												
Deferred tax adjustment on revaluation reserve	**-**	**-**	**-**	**(846)**	**-**	**-**	**-**	**-**	**(4)**	**(850)**	**-**	**(850)**
Revaluation reserve:												
Transfer to retained profit upon realisation of depreciation	**-**	**-**	**-**	**(1,486)**	**-**	**-**	**-**	**-**	**1,486**	**-**	**-**	**-**
Surplus on revaluation property	**-**	**-**	**-**	**8,226**	**-**	**-**	**-**	**-**	**-**	**8,226**	**-**	**8,226**
Fair value reserve:												
Net change in fair value	**-**	**-**	**-**	**-**	**-**	**27,302**	**-**	**-**	**-**	**27,302**	**-**	**27,302**
Net amount transferred to profit or loss on disposal	**-**	**-**	**-**	**-**	**-**	**(11,384)**	**-**	**-**	**-**	**(11,384)**	**-**	**(11,384)**
Total other comprehensive income	**-**	**-**	**-**	**5,894**	**-**	**15,918**	**-**	**-**	**1,482**	**23,294**	**-**	**23,294**
Total comprehensive income for the year	**-**	**-**	**9,896**	**5,894**	**-**	**15,918**	**-**	**-**	**756,940**	**788,648**	**-**	**788,648**
Transactions with ultimate holding company, recorded directly in equity												
Share based payment transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,466**	**7,687**	**14,153**	**-**	**14,153**
Dividends paid to owner - 2009 final	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(250,000)**	**(250,000)**
Dividends paid to owner - 2010 interim	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(200,000)**	**(200,000)**	**-**	**(200,000)**
Proposed dividend - 2010 final	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(250,000)**	**(250,000)**	**250,000**	**-**
Balance as at 31 December 2010	**114,500**	**741,375**	**164,500**	**139,110**	**190,000**	**4,512**	**-**	**81,169**	**2,635,920**	**3,956,586**	**250,000**	**4,321,086**
Balance as at 1 January 2011	**114,500**	**741,375**	**164,500**	**139,110**	**190,000**	**4,512**	**-**	**81,169***	**2,635,920**	**3,956,586**	**250,000**	**4,321,086**
Total comprehensive income for the year												
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,035,630**	**1,035,630**	**-**	**1,035,630**
Other comprehensive income, net of income tax												
Deferred tax adjustment on revaluation reserve	**-**	**-**	**-**	**(236)**	**-**	**-**	**-**	**-**	**-**	**(236)**	**-**	**(236)**
Revaluation reserve:												
Transfer to retained profit upon realisation of depreciation	**-**	**-**	**-**	**(1,547)**	**-**	**-**	**-**	**-**	**1,547**	**-**	**-**	**-**
Surplus on revaluation property	**-**	**-**	**-**	**11,270**	**-**	**-**	**-**	**-**	**-**	**11,270**	**-**	**11,270**
Cash flow hedge	**-**	**-**	**-**	**-**	**-**	**-**	**854**	**-**	**-**	**854**	**-**	**854**
Fair value reserve:												
Net change in fair value	**-**	**-**	**-**	**-**	**-**	**7,475**	**-**	**-**	**-**	**7,475**	**-**	**7,475**
Net amount transferred to profit or loss on disposal	**-**	**-**	**-**	**-**	**-**	**(1,073)**	**-**	**-**	**-**	**(1,073)**	**-**	**(1,073)**
Total other comprehensive income	**-**	**-**	**-**	**9,487**	**-**	**6,402**	**854**	**-**	**1,547**	**18,290**	**-**	**18,290**
Total comprehensive income for the year	**-**	**-**	**-**	**9,487**	**-**	**6,402**	**854**	**-**	**1,037,177**	**1,053,920**	**-**	**1,053,920**
Transactions with ultimate holding company, recorded directly in equity												
Share based payment transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,642**	**5,948**	**14,590**	**-**	**14,590**
Dividends paid to owner - 2010 final	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(250,000)**	**(250,000)**
Dividends paid to owner - 2011 interim	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(200,000)**	**(200,000)**	**-**	**(200,000)**
Proposed dividend - 2011 final	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(300,000)**	**(300,000)**	**300,000**	**-**
Balance as at 31 December 2011	**114,500**	**741,375**	**164,500**	**148,597**	**190,000**	**10,914**	**854**	**89,811**	**3,179,045**	**4,525,096**	**300,000**	**4,939,596**

* This balance has been reclassified to conform to current year's presentation, please refer to Note 45 for further details.

The financial statements were approved and authorised for issue by the Board of Directors on 16 February 2012.

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 2011 (CONT'D)

Bank

	Non-distributable								*Distributable*			
	Share capital	*Share premium*	*Statutory reserve*	*Revaluation reserve*	*Capital redemption reserve*	*Available-for-sale reserve*	*Cash flow hedge reserve*	*Capital contribution reserve*	*Retained profit*	*Total reserves*	*Proposed dividends*	*Total shareholder's equity*
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Balance as at 1 January 2010	**114,500**	**741,375**	**114,500**	**133,216**	**190,000**	**(11,843)**	**-**	**74,560***	**2,271,906**	**3,513,714**	**250,000**	**3,878,214**
-effect of adopting FRS 139	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9,252**	**9,252**	**-**	**9,252**
Balance as at 1 January 2010, as restated	**114,500**	**741,375**	**114,500**	**133,216**	**190,000**	**(11,843)**	**-**	**74,560**	**2,281,158**	**3,522,966**	**250,000**	**3,887,466**
Total comprehensive income for the year												
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**720,941**	**720,941**	**-**	**720,941**
Other comprehensive income, net of income tax												
Deferred tax adjustment on revaluation reserve	**-**	**-**	**-**	**(846)**	**-**	**-**	**-**	**-**	**(4)**	**(850)**	**-**	**(850)**
Revaluation reserve:												
Transfer to retained profit upon realisation of depreciation	**-**	**-**	**-**	**(1,486)**	**-**	**-**	**-**	**-**	**1,486**	**-**	**-**	**-**
Surplus on revaluation property	**-**	**-**	**-**	**8,226**	**-**	**-**	**-**	**-**	**-**	**8,226**	**-**	**8,226**
Fair value reserve :												
Net change in fair value	**-**	**-**	**-**	**-**	**-**	**27,875**	**-**	**-**	**-**	**27,875**	**-**	**27,875**
Net amount transferred to profit or loss on disposal	**-**	**-**	**-**	**-**	**-**	**(11,384)**	**-**	**-**	**-**	**(11,384)**	**-**	**(11,384)**
Total other comprehensive income	**-**	**-**	**-**	**5,894**	**-**	**16,491**	**-**	**-**	**1,482**	**23,867**	**-**	**23,867**
Total comprehensive income for the year	**-**	**-**	**-**	**5,894**	**-**	**16,491**	**-**	**-**	**722,423**	**744,808**	**-**	**744,808**
Transactions with ultimate holding company, recorded directly in equity												
Share based payment transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,274**	**7,687**	**13,961**	**-**	**13,961**
Dividends paid to owner - 2009 final	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(250,000)**	**(250,000)**
Dividends paid to owner - 2010 interim	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(200,000)**	**(200,000)**	**-**	**(200,000)**
Proposed dividend - 2010 final	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(250,000)**	**(250,000)**	**250,000**	**-**
Balance as at 31 December 2010	**114,500**	**741,375**	**114,500**	**139,110**	**190,000**	**4,648**	**-**	**80,834**	**2,561,268**	**3,831,735**	**250,000**	**4,196,235**
Balance as at 1 January 2011	**114,500**	**741,375**	**114,500**	**139,110**	**190,000**	**4,648**	**-**	**80,834***	**2,561,268**	**3,831,735**	**250,000**	**4,196,235**
Total comprehensive income for the year												
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**957,066**	**957,066**	**-**	**957,066**
Other comprehensive income, net of income tax												
Deferred tax adjustment on revaluation reserve	**-**	**-**	**-**	**(236)**	**-**	**-**	**-**	**-**	**-**	**(236)**	**-**	**(236)**
Revaluation reserve:												
Transfer to retained profit upon realisation of depreciation	**-**	**-**	**-**	**(1,547)**	**-**	**-**	**-**	**-**	**1,547**	**-**	**-**	**-**
Surplus on revaluation property	**-**	**-**	**-**	**11,270**	**-**	**-**	**-**	**-**	**-**	**11,270**	**-**	**11,270**
Cash flow hedge	**-**	**-**	**-**	**-**	**-**	**-**	**854**	**-**	**-**	**854**	**-**	**854**
Fair value reserve:												
Net change in fair value	**-**	**-**	**-**	**-**	**-**	**7,191**	**-**	**-**	**-**	**7,191**	**-**	**7,191**
Net amount transferred to profit or loss on disposal	**-**	**-**	**-**	**-**	**-**	**(1,073)**	**-**	**-**	**-**	**(1,073)**	**-**	**(1,073)**
Total other comprehensive income	**-**	**-**	**-**	**9,487**	**-**	**6,118**	**854**	**-**	**1,547**	**18,006**	**-**	**18,006**
Total comprehensive income for the year	**-**	**-**	**-**	**9,487**	**-**	**6,118**	**854**	**-**	**958,613**	**975,072**	**-**	**975,072**
Transactions with ultimate holding company, recorded directly in equity												
Share based payment transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,281**	**5,948**	**14,229**	**-**	**14,229**
Dividends paid to owner - 2010 final	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(250,000)**	**(250,000)**
Dividends paid to owner - 2011 interim	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(200,000)**	**(200,000)**	**-**	**(200,000)**
Proposed dividend - 2011 final	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(300,000)**	**(300,000)**	**300,000**	**-**
Balance as at 31 December 2011	**114,500**	**741,375**	**114,500**	**148,597**	**190,000**	**10,766**	**854**	**89,115**	**3,025,829**	**4,321,036**	**300,000**	**4,735,536**

* This balance has been reclassified to conform to current year's presentation, please refer to Note 45 for further details.

The financial statements were approved and authorised for issue by the Board of Directors on 16 February 2012.

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

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

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

	Group	
	2011	2010
	RM'000	RM'000
Cash Flows from Operating Activities		*Restated*
Profit before income tax expense	**1,390,784**	1,047,132
Adjustments for :		
Property and equipment written off	**129**	218
Reversal of capitalised charges for intangible assets	**810**	-
Depreciation of property and equipment	**41,233**	34,103
Amortisation of intangible assets	**25,463**	26,261
Net gains on disposal of property and equipment	**(303)**	(15)
Net gains on disposal of property, plant and equipment recognised in Islamic Banking	**(2)**	-
Net downwards/(upwards) revaluation on property	**11**	(18)
Impairment of intangibles	**5,167**	-
Share-based payment transactions	**14,590**	14,153
Dividend income	**(1,176)**	(1,460)
Operating profit before changes in operating assets	**1,476,706**	1,120,374
Decrease/ (Increase) in operating assets		
Securities purchased under resale agreements	**2,784,894**	313,060
Deposits and placements with banks and other financial institutions	**(320,797)**	(188,169)
Financial Assets Held-for-Trading	**(1,322,177)**	(3,612,243)
Loans, advances and financing	**(5,080,888)**	(5,442,968)
Other assets	**95,185**	(885,684)
Statutory deposits with Bank Negara Malaysia	**(874,233)**	(43,000)
Increase/ (Decrease) in operating liabilities		
Deposits from customers	**10,184,422**	3,653,066
Deposits and placements from banks and other financial institutions	**3,055,914**	4,033,410
Bills and acceptances payable	**92,108**	117,613
Other liabilities	**2,408,407**	610,361
Recourse obligation on loans sold to Cagamas Berhad	**(374,991)**	(200,520)
Net cash generated from/(used in) operating activities	**12,124,550**	(524,700)
Income tax paid	**(333,663)**	(311,373)
Utilisation of zakat provisions	**(100)**	-
Net cash generated from/(used in) operating activities	**11,790,787**	(836,073)
Cash Flows from Investing Activities		
Purchase of property and equipment	**(65,815)**	(56,715)
Purchase of intangible assets	**(24,082)**	(29,695)
Proceeds from disposal of property and equipment	**466**	44
Financial Investments Available-for-Sale	**(1,464,909)**	1,477,025
Dividends received	**1,176**	1,460
Net cash (used in)/generated from investing activities	**(1,553,164)**	1,392,119
Cash Flow from Financing Activity		
Dividends paid	**(450,000)**	(450,000)
Net cash used in financing activity	**(450,000)**	(450,000)
Net increase in Cash and Cash Equivalents	**9,787,623**	106,046
Cash and Cash Equivalents at beginning of year	**11,815,604**	11,709,558
Cash and Cash Equivalents at end of year	**21,603,227**	11,815,604
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**21,603,227**	11,815,604

The financial statements were approved and authorised for issue by the Board of Directors on 16 February 2012.

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

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

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

	Bank	
	2011	2010
	RM'000	RM'000
Cash Flows from Operating Activities		*Restated*
Profit before income tax expense	**1,292,987**	983,854
Adjustments for :		
Property and equipment written off	**78**	216
Depreciation of property and equipment	**35,617**	30,479
Amortisation of intangible assets	**25,230**	25,525
Net gains on disposal of property and equipment	**(303)**	(15)
Net downwards/(upwards) revaluation on property	**11**	(18)
Impairment of intangibles	**5,167**	-
Net transfer of property and equipment to subsidiary	**527**	-
Share-based payment transactions	**14,229**	13,961
Dividend income	**(1,176)**	(1,460)
Operating profit before changes in operating assets	**1,372,367**	1,052,542
Decrease/ (Increase) in operating assets		
Securities purchased under resale agreements	**2,784,894**	313,060
Deposits and placements with banks and other financial institutions	**(2,215,243)**	(385,946)
Financial Assets Held-for-Trading	**(1,253,467)**	(3,591,623)
Loans, advances and financing	**(2,170,818)**	(3,971,697)
Other assets	**78,249**	(859,324)
Statutory deposits with Bank Negara Malaysia	**(680,400)**	(36,800)
Increase/ (Decrease) in operating liabilities		
Deposits from customers	**8,490,706**	2,342,941
Deposits and placements from banks and other financial institutions	**3,168,018**	3,551,514
Bills and acceptances payable	**90,039**	115,380
Other liabilities	**2,568,181**	236,190
Recourse obligation on loans sold to Cagamas Berhad	**(374,991)**	(200,520)
Net cash generated from/(used in) operating activities	**11,857,535**	(1,434,283)
Income tax paid	**(319,645)**	(289,232)
Net cash generated from/(used in) operating activities	**11,537,890**	(1,723,515)
Cash Flows from Investing Activities		
Purchase of property and equipment	**(58,174)**	(44,148)
Purchase of intangible assets	**(24,077)**	(29,683)
Proceeds from disposal of property and equipment	**464**	28
Financial Investments Available-for-Sale	**(1,373,867)**	1,424,235
Dividend received	**1,176**	1,460
Net cash (used in)/generated from investing activities	**(1,454,478)**	1,351,892
Cash Flows from Financing Activity		
Dividends paid	**(450,000)**	(450,000)
Net cash used in financing activity	**(450,000)**	(450,000)
Net increase/(decrease) in Cash and Cash Equivalents	**9,633,412**	(821,623)
Cash and Cash Equivalents at beginning of year	**10,658,860**	11,480,483
Cash and Cash Equivalents at end of year	**20,292,272**	10,658,860
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**20,292,272**	10,658,860

The financial statements were approved and authorised for issue by the Board of Directors on 16 February 2012.

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 2011

1 General Information

HSBC Bank Malaysia Berhad ("the Bank") is principally engaged in the provision of banking and other related financial services. The subsidiaries of the Bank are principally engaged in the businesses of Islamic Banking and nominee services. Islamic Banking operations refer generally to the acceptance of deposits and granting of financing under the principles of Shariah.

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

2 Basis of Preparation

(a) Statement of compliance

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

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

All significant accounting policies adopted are consistent with those of the audited financial statements for the financial year ended 31 December 2010, except for the adoption of the following FRSs, amendments to FRSs and Issues Committee ("IC") Interpretations.

FRS/Interpretations	**Effective date**
- FRS 1, First-time Adoption of Financial Reporting Standards	1 Jul 2010
- FRS 3, Business Combinations	1 Jul 2010
- FRS 127, Consolidated and Separate Financial Statements	1 Jul 2010
- IC Interpretation 4, Determining whether an Arrangement contains a Lease	1 Jan 2011
- IC Interpretation 12, Service Concession Arrangements	1 Jul 2010
- IC Interpretation 16, Hedges of a Net Investment in a Foreign Operation	1 Jul 2010
- IC Interpretation 17, Distribution of Non-cash Assets to Owners	1 Jul 2010
- IC Interpretation 18, Transfers of Assets from Customers	1 Jan 2011
- Amendments to FRS 1, First Time Adoption of Financial Reporting Standards- Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters and Additional Exemptions for First-time Adopters	1 Jan 2011
- Amendments to FRS 132, Financial Instruments: Presentation – Classification of Rights Issues	1 Mar 2010
- Amendments to FRS 2, Share-based Payment	1 Jul 2010
- Amendments to FRS 2, Group Cash-settled Share-based Payment Transactions	1 Jan 2011
- Amendments to FRS 5, Non-current Assets Held for Sale and Discontinued Operations	1 Jul 2010
- Amendments to FRS 7, Financial Instruments: Disclosures- Improving Disclosures about Financial Instruments	1 Jan 2011
- Amendments to FRS 138, Intangible Assets	1 Jul 2010
- Amendments to IC Interpretation 9, Reassessment of Embedded Derivatives	1 Jul 2010
- Improvements to FRSs (2010)	1 Jan 2011

2 Basis of Preparation (Cont'd)

(a) Statement of compliance (Cont'd)

IC Interpretations 12, 16 and 17 did not have any impact on the financial statements of the Group and the Bank as they are not relevant to the operations of the Group and the Bank. The adoption of the remaining FRSs, amendments to FRSs and IC Interpretations did not have any material impact on the financial results of the Group and the Bank.

The Group and Bank have not applied the following accounting standards, amendments and interpretations that have been issued by the MASB as they are either not applicable or not yet effective for the Group and Bank.

FRS/Interpretations	Effective date
- IC Interpretation 19, Extinguishing Financial Liabilities with Equity Instruments	1 Jul 2011
- Amendments to IC Interpretation 14, Prepayments of a Minimum Funding Requirement	1 Jul 2011
- FRS 124, Related Party Disclosures (revised)	1 Jan 2012
- IC Interpretation 15, Agreements for the Construction of Real Estate	1 Jan 2012
- Amendments to FRS 1, First-time Adoption of Financial Reporting Standards- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 Jan 2012
- Amendments to FRS 7, Financial Instruments: Disclosures –Transfers of Financial Assets	1 Jan 2012
- Amendments to FRS 112, Income Taxes -Deferred Tax: Recovery of Underlying Assets	1 Jan 2012
- Amendments to FRS 101, Presentation of Financial Statements – Presentation of of Items of Other Comprehensive Income	1 Jul 2012
- FRS 9, Financial Instruments (2009)	1 Jan 2013
- FRS 9, Financial Instruments (2010)	1 Jan 2013
- FRS 10, Consolidated Financial Statements	1 Jan 2013
- FRS 11, Joint Arrangements	1 Jan 2013
- FRS 12, Disclosure of Interests in Other Entities	1 Jan 2013
- FRS 13, Fair Value Measurement	1 Jan 2013
- FRS 119, Employee Benefits (2011)	1 Jan 2013
- FRS 127, Separate Financial Statements (2011)	1 Jan 2013
- FRS 128, Investments in Associates and Joint Ventures (2011)	1 Jan 2013
- IC Interpretation 20, Stripping Costs in the Production Phase of a Surface Mine	1 Jan 2013

The Group and the Bank's financial statements for the annual period beginning on 1 January 2012 will be prepared in accordance with the Financial Reporting Standards (FRSs) issued by the MASB, which will then be known as Malaysian Financial Reporting Standards (MFRs), and the International Financial Reporting Standards (IFRSs).

2 Basis of Preparation (Cont'd)

(b) Basis of measurement

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

- Financial assets held-for-trading
- Financial investments available-for-sale
- Property and equipment
- Derivatives and Hedge Accounting

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

3 Significant Accounting Policies

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

(a) Basis of Consolidation

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

i) Subsidiaries
Subsidiaries are entities, including unincorporated entities, controlled by the Group. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Investments in subsidiaries are measured in the Bank's statement of financial position at cost less any impairment losses, unless the investment is held for sale or distribution. The cost of investments includes transaction cost.

The accounting policies of subsidiaries are changed when necessary to align them with the policies adopted by the Group.

ii) Accounting for business combinations
Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group. The Group has changed its accounting policy with respect to accounting for business combinations. From 1 January 2011 the Group has applied FRS 3, Business Combinations (revised) in accounting for business combinations. The change in accounting policy has been applied prospectively in accordance with the transitional provisions provided by the standard and does not have impact on earnings per share.

Acquisitions on or after 1 January 2011
For acquisitions on or after 1 January 2011, the Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

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

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

3 Significant Accounting Policies

(a) Basis of Consolidation (Cont'd)

iii) Associates (Cont'd)

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

Investments in associates are measured in the Bank's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale of distribution. The cost of the investment includes transaction costs.

iv) Joint ventures

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

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

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

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

The interest of the Company or of the Group in unincorporated joint ventures and jointly-controlled assets are brought to account by recognising in its financial statements the assets it controls and the liabilities that it incurs, and the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

v) Transactions eliminated on consolidation

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

(b) Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

3 Significant Accounting Policies (Cont'd)

(c) Revenue

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

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

Interest income and expense for all financial instruments except those classified as held-for-trading are recognised in "interest income" and "interest expense" in the statement of comprehensive income using the effective interest method.

The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest/profit rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability, or where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate/profit rate, the Group and the Bank estimate cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation includes all amounts paid or received by the Group and the Bank that are an integral part of the effective interest/profit rate of a financial instrument, including transaction costs and all other premiums or discounts.

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

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

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

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

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

- if the income is earned on the execution of a significant act, it is recognised as revenue when the significant act has been completed;

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

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

Dividend income from equity securities is recognised when the right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

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

3 Significant Accounting Policies (Cont'd)

(f) Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases.

Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

(g) Financial instruments

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

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

ii) Classification
See accounting policies 3*j*, 3*k*, 3*l*.

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

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

3 Significant Accounting Policies (Cont'd)

(g) Financial instruments (Cont'd)

iv) Offsetting

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

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

v) Amortised cost measurement

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

vi) Fair value measurement

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

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

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

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

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

3 Significant Accounting Policies (Cont'd)

g) Financial instruments (Cont'd)

vii) Identification of impairment

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

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

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

- known cash flow difficulties experienced by the borrower;
- an overdue contractual payment of principal or interest or both that is in arrears for more than 90 days;
- breach of loan covenants or conditions;
- the probability that the borrower will enter bankruptcy or other distressed financial reorganisation, based on conditions existing at the reporting date; and
- a significant downgrading in credit rating by an external credit rating agency - not in itself evidence of impairment, but to be considered in conjunction with other information.

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

- individually assessed loans fewer than 90 days past due;
- loans fully secured by cash collateral;
- short-term trade facilities technically overdue, for instance through documentation delay, but where there is no concern over the creditworthiness of the customer/ counterparty.

(h) Cash and cash equivalents

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

(i) Resale and Repurchase Agreements

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

Conversely, obligation on securities sold under repurchase agreements are securities which the Group and the Bank had sold from its portfolio, with a commitment to repurchase at future dates. The obligation to repurchase the securities are reflected as a liability on the statements of financial position.

3 Significant Accounting Policies (Cont'd)

(j) Financial assets held-for-trading

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

(k) Financial investments

i Held-to-maturity

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

ii Available-for-sale

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

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost.

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

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

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

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

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

3 Significant Accounting Policies (Cont'd)

(k) Financial investments(Cont'd)

ii Available-for-sale (Cont'd)

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

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

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

- Where the net book value of the restructured loans is higher than the fair value of the debt or equity instruments, the loss shall be recognised in the statement of comprehensive income in the current reporting period.

- Where the fair value of the debt or equity instruments is higher than the net book value of the restructured loans, the gain from the conversion exercise is transferred to the "impairment loss" account, which would be netted off from the "Financial investments available-for-sale" account in the balance sheet.

(l) Loans, Advances and Financing

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

(m) Impairment of loans, advances and financing

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

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

3 Significant Accounting Policies (Cont'd)

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

Collective impairment provisions based on a percentage (1.5%) of the total outstanding loans/financing portfolio net of individual impairment provisions is also maintained to cover possible losses which are not specifically identified.

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

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

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

(n) Property and Equipment

i. Property

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

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

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

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

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

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

3 Significant Accounting Policies (Cont'd)

(n) Property and Equipment (Cont'd)

ii. Equipment

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

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

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

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

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

(o) Operating leases

Leases, where the Group or the Bank does not assume substantially all the risks and rewards of ownership, are classified as operating leases and the leased assets are not recognised in the statement of financial position of the Group or the Bank. Rentals payable under operating leases are accounted for on a straight line basis over the periods of the leases unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred. Leasehold land which in substance in an operating lease is classified as prepaid lease payments and are included under "General administrative expenses."

(p) Intangible Assets

Intangible assets represent computer software and are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets is calculated to write off the cost of the intangible assets on a straight line basis over the estimated useful lives of 3 to 5 years. Intangible assets are subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

(q) Bills and Acceptances Payable

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

3 Significant Accounting Policies (Cont'd)

(r) Recourse Obligation on Loans Sold to Cagamas Berhad

In the normal course of banking operations, the Bank sells loans to Cagamas Berhad. The Bank is liable in respect of the loans sold directly to Cagamas Berhad under the condition that the Bank undertakes to administer the loans on behalf of Cagamas Berhad and to buy back any loans which are regarded as defective based on prudence. Such financing transactions and the obligation to buy back the loans is reflected as a liability on the balance sheet. As at 31 December 2011, the Bank does not have any outstanding recourse obligation on loans sold to Cagamas.

(s) Subordinated Bonds

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

(t) Provisions

A provision is recognised if, as a result of a past event, the Group and the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(u) Financial guarantees

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

(v) Derivatives and Hedge Accounting

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

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

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

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

3 Significant Accounting Policies (Cont'd)

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

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

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

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

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

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

(w) Profit Equalisation Reserves ('PER')

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

(x) Employee Benefits

i Short term employee benefits
Short term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Group and the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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

3 Significant Accounting Policies (Cont'd)

(y) Share based payments

The Group and Bank enters into equity-settled share based payment arrangements with its employees as compensation for services provided by employees. Equity-settled share based payment arrangements entitle employees to receive equity instruments of the ultimate holding company, HSBC Holdings plc.

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

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

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

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

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

(z) Earnings per share

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

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4 Financial risk management

a) Introduction and overview

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

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

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

Risk management framework

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

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

The Risk Management Committee is entrusted with the responsibility to oversee senior management’s activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and functioning. In addition, a separate internal Risk Committee was set up in 2009 in line with the Group's Risk Governance Structure to oversee and ensure that risk issues across all businesses are appropriately managed, and that adequate controls exist. The Group also has an internal Operational Risk and Internal Control Committee to oversee and manage operational risk and ensure that adequate controls are maintained over operational processes.

b) Credit risk management

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its payment obligations under a contract. It arises principally from cash and deposit placements, direct lending, trade finance and holdings of investment debt securities. The Group has dedicated standards, policies and procedures to control and monitor all such risks.

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

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

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

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

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

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

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

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

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

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

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

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

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

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

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

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

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

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

The estimated fair value of collateral and other security enhancements held against impaired loans, advances and financing as at 31 December 2011 amounted to RM527.8 million (2010: RM509.2 million) for the Group and RM499.7 million (2010: RM497.4 million) for the Bank.

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

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

Financial assets held-for-trading

The Group and Bank hold financial assets held-for-trading of RM6.217 billion (2010: RM4.895 billion) and RM6.000 billion (2010: RM4.747 billion) respectively. An analysis of the credit quality of the maximum credit exposure, based on the rating agency Standard & Poor's, is as disclosed in Note 8 to the financial statements.

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

Derivatives

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

Settlement risk

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

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

i) Exposure to credit risk

	31 Dec 2011		
Group	Loans, advances and financing to customers **RM'000**	Loans and advances to banks* **RM'000**	Investment Securities** **RM'000**
Carrying amount	**39,156,932**	**25,937,974**	**4,856,911**
Assets at amortised cost			
Individually impaired:			
Gross amount	**741,406**	-	-
Allowance for impairment	**(354,634)**	-	-
Carrying amount	**386,772**	-	-
Past due but not impaired:			
Carrying amount	**2,114,716**	-	-
Past due comprises:			
up to 29 days	**1,379,138**	-	-
30 - 59 days	**359,354**	-	-
60 - 89 days	**376,224**	-	-
	2,114,716	-	-
Neither past due nor impaired:			
Strong	**20,624,309**	**25,924,113**	-
Medium-good	**9,326,800**	**13,861**	-
Medium-satisfactory	**6,784,371**	-	-
Substandard	**516,644**	-	-
Carrying amount	**37,252,124**	**25,937,974**	-
of which includes accounts with renegotiated terms	***304,522***	-	-
Collective allowance for impairment	**(596,680)**	-	-
Carrying amount-amortised cost	**39,156,932**	**25,937,974**	-
Available-for-sale (AFS)			
Neither past due nor impaired:			
Strong	-	-	**4,283,949**
Medium satisfactory	-	-	**572,962**
Carrying amount	-	-	**4,856,911**
of which includes accounts with renegotiated terms	-	-	-
Carrying amount-fair value	-	-	**4,856,911**

In addition to the above, the Group had entered into lending commitments of RM28.828 billion. The Group had also issued financial guarantee contracts for which the maximum amount payable by the Group, assuming all guarantees are called on, is RM4.220 billion.

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

** Excludes equity securities

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

i) Exposure to credit risk (Cont'd)

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

In addition to the above, the Group had entered into lending commitments of RM17.997 billion. The Group had also issued financial guarantee contracts for which the maximum amount payable by the Group, assuming all guarantees are called on, is RM2.273 billion.

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

** Excludes equity securities

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

i) Exposure to credit risk (Cont'd)

Bank	**31 Dec 2011** Loans, advances and financing to customers **RM'000**	Loans and advances to banks* **RM'000**	Investment Securities** **RM'000**
Carrying amount	**31,610,586**	**27,662,299**	**4,434,825**
Assets at amortised cost			
Individually impaired:			
Gross amount	**615,718**	**-**	**-**
Allowance for impairment	**(285,365)**	**-**	**-**
Carrying amount	**330,353**	**-**	**-**
Past due but not impaired:			
Carrying amount	**1,773,270**	**-**	**-**
Past due comprises:			
up to 29 days	**1,136,060**	**-**	**-**
30 - 59 days	**303,143**	**-**	**-**
60 - 89 days	**334,067**	**-**	**-**
	1,773,270	**-**	**-**
Neither past due nor impaired:			
Strong	**16,813,439**	**27,648,438**	**-**
Medium-good	**7,094,261**	**13,861**	**-**
Medium-satisfactory	**5,574,990**	**-**	**-**
Substandard	**505,653**	**-**	**-**
Carrying amount	**29,988,343**	**27,662,299**	**-**
of which includes accounts with renegotiated terms	***252,369***	**-**	**-**
Collective allowance for impairment	**(481,380)**	**-**	**-**
Carrying amount-amortised cost	**31,610,586**	**27,662,299**	**-**
Available-for-sale (AFS)			
Neither past due nor impaired:			
Strong	**-**	**-**	**3,861,863**
Medium satisfactory	**-**	**-**	**572,962**
Carrying amount	**-**	**-**	**4,434,825**
of which includes accounts with renegotiated terms	**-**	**-**	**-**
Carrying amount-fair value	**-**	**-**	**4,434,825**

In addition to the above, the Bank had entered into lending commitments of RM25.276 billion. The Bank had also issued financial guarantee contracts for which the maximum amount payable by the Bank , assuming all guarantees are called on, is RM3.630 billion.

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

** Excludes equity securities

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

i) Exposure to credit risk (Cont'd)

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

In addition to the above, the Bank had entered into lending commitments of RM16.568 billion. The Bank had also issued financial guarantee contracts for which the maximum amount payable by the Bank , assuming all guarantees are called on, is RM2.179 billion.

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

** Excludes equity securities

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

i) Exposure to credit risk (Cont'd)

The five credit quality classifications set out and defined below describe the credit quality of HSBC’s lending, debt securities portfolios and derivatives. Since 2008, the medium classification has been subdivided into ‘medium-good’ and ‘medium satisfactory’ to provide further granularity. These five classifications each encompass a range of more granular, internal credit rating grades assigned to corporate and retail lending business, as well as the external ratings attributed by external agencies to debt securities. There is no direct correlation between the internal and external ratings at granular level, except to the extent each falls within a single quality. classification.

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

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

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

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

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

ii) Concentration by sector and by location #

	Group			
	Loans and advances to banks*	Investment Securities**	Loans and advances to banks*	Investment Securities**
	31 Dec 2011		31 Dec 2010	
	RM'000	**RM'000**	RM'000	RM'000
Carrying amount	**25,937,974**	**4,856,911**	18,614,448	3,376,302
By Sector				
Transport, storage and communication	**-**	**-**	-	5,028
Finance, insurance and business services	**25,937,974**	**2,354,526**	18,614,448	1,674,377
Others	**-**	**2,502,385**	-	1,696,897
	25,937,974	**4,856,911**	18,614,448	3,376,302
By geographical location				
Within Malaysia	**24,220,082**	**4,856,911**	17,188,359	3,376,302
Outside Malaysia	**1,717,892**	**-**	1,426,089	-
	25,937,974	**4,856,911**	18,614,448	3,376,302

	Bank			
	Loans and advances to banks*	Investment Securities**	Loans and advances to banks*	Investment Securities**
	31 Dec 2011		31 Dec 2010	
	RM'000	**RM'000**	RM'000	RM'000
Carrying amount	**27,662,299**	**4,434,825**	18,598,538	3,045,637
By Sector				
Transport, storage and communication	**-**	**-**	-	5,028
Finance, insurance and business services	**27,662,299**	**2,329,522**	18,598,538	1,639,872
Others	**-**	**2,105,303**	-	1,400,737
	27,662,299	**4,434,825**	18,598,538	3,045,637
By geographical location				
Within Malaysia	**25,983,953**	**4,434,825**	17,172,449	3,045,637
Outside Malaysia	**1,678,346**	**-**	1,426,089	-
	27,662,299	**4,434,825**	18,598,538	3,045,637

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

** Excludes equity securities

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

4 Financial risk management (Cont'd)

c) Liquidity and funding risk management

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

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

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

The management of liquidity and funding is primarily carried out in accordance with the Bank Negara Malaysia New Liquidity Framework; and practices and limits set by ALCO and regional Head Office. These limits vary to take account of the depth and liquidity of the local market in which the Group operates. The Group maintains a strong liquidity position and manages the liquidity profile of its assets, liabilities and commitments to ensure that cash flows are appropriately balanced and all obligations are met when due.

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

- projecting cash flows and considering the level of liquid assets necessary in relation thereto;
- monitoring balance sheet advances to core funding ratios against internal and regulatory requirements
- maintaining a diverse range of funding sources with adequate back-up facilities;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising adverse long-term implications for the business.
- Stress testing and scenario analysis are important tools in HSBC's liquidity management framework. This will also include an assessment of asset liquidity under various stress scenerios.
- Manage the maturities and diversify secured and unsecured funding liabilities across markets, products and counterparties.
- Maintain liabilities of appropriate term relative to asset base.

4 Financial risk management (Cont'd)

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

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

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

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

Group (RM'000) As at 31 Dec 2011	On Demand	Due within 3 months	Due between 3 months to 12 months	Due between 1 and 5 years	Due after 5 years
Non-derivative liabilities					
Deposits from customers	**26,942,568**	**22,980,878**	**6,548,505**	**2,478,373**	**-**
Deposits and placements from banks and other financial institutions	**5,577,254**	**4,174,099**	**152,621**	**6,577**	**5,430**
Bills and acceptances payable	**512,665**	**8,672**	**-**	**-**	**-**
Other liabilities	**2,850,155**	**739,635**	**-**	**-**	**-**
Subordinated Bonds	**-**	**11,750**	**35,250**	**188,000**	**1,432,325**
Loans and other credit-related commitments	**22,232,695**	**2,625,433**	**7,189,725**	**960,011**	**-**
Financial guarantees and similar contracts	**1,975,976**	**437,302**	**624,633**	**1,181,956**	**1,388**
	60,091,313	**30,977,769**	**14,550,734**	**4,814,917**	**1,439,143**
Derivative liabilities					
Outflow	**-**	**(1,772)**	**(9,730)**	**(48,457)**	**(16,208)**
Inflow	**-**	**2,163**	**11,793**	**61,285**	**20,761**
	-	**391**	**2,063**	**12,828**	**4,553**

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

Bank (RM'000) As at 31 Dec 2011	On Demand	Due within 3 months	Due between 3 months to 12 months	Due between 1 and 5 years	Due after 5 years
Non-derivative liabilities					
Deposits from customers	**25,246,505**	**19,930,677**	**5,792,242**	**2,461,694**	**-**
Deposits and placements from banks and other financial institutions	**5,573,289**	**3,698,656**	**152,621**	**6,576**	**5,430**
Bills and acceptances payable	**505,065**	**8,672**	**-**	**-**	**-**
Other liabilities	**2,947,821**	**719,611**	**-**	**-**	**-**
Subordinated Bonds	**-**	**11,750**	**35,250**	**188,000**	**1,432,325**
Loans and other credit-related commitments	**19,894,309**	**2,089,234**	**5,182,575**	**708,233**	**-**
Financial guarantees and similar contracts	**1,524,753**	**424,801**	**577,752**	**1,102,773**	**1,388**
	55,691,742	**26,883,401**	**11,740,440**	**4,467,276**	**1,439,143**
Derivative liabilities					
Outflow	**-**	**(1,772)**	**(9,730)**	**(48,457)**	**(16,208)**
Inflow	**-**	**2,163**	**11,793**	**61,285**	**20,761**
	-	**391**	**2,063**	**12,828**	**4,553**

4 Financial risk management (Cont'd)

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

i) Cash flows payable by the Group under financial liabilities by remaining contractual maturities (Cont'd)

Group (RM'000) As at 31 Dec 2010	On demand	Due within 3 months	Due between 3 months to 12 months	Due between 1 and 5 years	Due after 5 years
Non-derivative liabilities					
Deposits from customers	18,597,957	20,639,274	7,202,369	2,702,478	884,080
Deposits and placements from banks and other financial institutions	-	6,673,634	126,387	53,027	-
Bills and acceptances payable	-	429,229	-	-	-
Recourse obligations on loans sold to Cagamas	-	139,099	243,427	-	-
Other liabilities	1,034,421	446,407	-	-	-
Subordinated bonds	-	9,750	29,250	156,000	1,390,000
Loan and other credit-related commitments	18,522,410	2,914,439	5,925,799	1,174,860	-
Financial guarantees and similar contracts	1,235,717	356,610	505,396	169,048	5,767
	39,390,505	**31,608,442**	**14,032,628**	**4,255,413**	**2,279,847**
Derivative liabilities					
Outflow	-	(996)	(6,332)	(48,227)	(27,014)
Inflow	-	1,449	8,794	61,172	34,602
	-	**453**	**2,462**	**12,945**	**7,588**

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

Bank (RM'000) As at 31 Dec 2010	On demand	Due within 3 months	Due between 3 months to 12 months	Due between 1 and 5 years	Due after 5 years
Non-derivative liabilities					
Deposits from customers	17,428,629	18,515,403	6,749,803	2,522,615	884,080
Deposits and placements from banks and other financial institutions	-	6,164,034	97,502	-	-
Bills and acceptances payable	-	423,698	-	-	-
Recourse obligations on loans sold to Cagamas	-	139,099	243,427	-	-
Other liabilities	992,522	424,416	-	-	-
Subordinated bonds	-	9,750	29,250	156,000	1,390,000
Loan and other credit-related commitments	17,271,770	2,300,888	4,684,549	1,039,461	-
Financial guarantees and similar contracts	1,163,198	338,372	502,832	168,926	5,767
	36,856,119	**28,315,660**	**12,307,363**	**3,887,002**	**2,279,847**
Derivative liabilities					
Outflow	-	(996)	(6,332)	(48,227)	(27,014)
Inflow	-	1,449	8,794	61,172	34,602
	-	**453**	**2,462**	**12,945**	**7,588**

4 Financial risk management (Cont'd)

d) Market risk management

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

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

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

The management of market risk is principally undertaken using risk limit mandates approved by HSBC's Group Global Market Risk Management (GMO TMR), an independent unit which develops HSBC Group's market risk management policies and measurement techniques. Market risks which arise on each product are transferred to either the Group's Global Markets unit or to a separate book managed under the supervision of ALCO. The aim is to ensure that all market risks are consolidated within operations which have the necessary skills, tools, management and governance to manage such risks professionally. Limits are set for portfolios, products and risk types, with market liquidity being the principal factor in determining the level of limits set. The Group has an independent market risk control function that is responsible for measuring market risk exposures in accordance with the policies defined by GMO TMR. Positions are monitored daily and excesses against the prescribed limits are reported immediately to local senior management and GMO TMR. The nature of the hedging and risk mitigation strategies corresponds to the market instruments available. These strategies range from the use of traditional market instruments, such as interest rate swaps / profit rate swaps, to more sophisticated hedging strategies to address a combination of risk factors arising at portfolio level.

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

i) Value at risk ('VAR')

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

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

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

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

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

Bank (RM'000)	**At 31 Dec 2011**	**Average**	**Maximum**	**Minimum**
Foreign currency risk	**451**	**739**	**5,077**	**6**
Interest rate risk	**4,181**	**4,473**	**9,676**	**2,070**
Credit spread risk	**1,407**	**1,210**	**2,229**	**431**
Overall	**4,028**	**4,458**	**9,817**	**1,880**
HSBC Amanah Malaysia Berhad (RM'000)	**At 31 Dec 2011**	**Average**	**Maximum**	**Minimum**
Foreign currency risk	**46**	**64**	**236**	**5**
Interest rate risk	**233**	**263**	**664**	**104**
Credit spread risk	**-**	**8**	**154**	**-**
Overall	**237**	**268**	**712**	**108**

Bank (RM'000)	**At 31 Dec 2010**	**Average**	**Maximum**	**Minimum**
Foreign currency risk	1,773	1,159	8,153	6
Interest rate risk	6,364	5,970	10,111	3,034
Credit spread risk	1,952	1,532	6,096	379
Overall	7,135	5,902	11,418	2,195
HSBC Amanah Malaysia Berhad (RM'000)	**At 31 Dec 2010**	**Average**	**Maximum**	**Minimum**
Foreign currency risk	37	59	185	6
Interest rate risk	293	496	1,144	188
Credit spread risk	148	62	1,135	-
Overall	330	506	1,366	207

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

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

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

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

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

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

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

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

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

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

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

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

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

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

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

ii) Sensitivity of projected Net Interest/Finance Income

Change in projected net interest/finance income in next 12 months arising from a shift in interest/profit rates of:	Group	
	31-Dec-11 RM'000	31-Dec-10 RM'000
+100 basis points parallel shift in yield curves	**217,716**	205,231
-100 basis points parallel shift in yield curves	**(211,270)**	(190,541)
+25 basis points at the beginning of each quarter	**150,892**	135,263
-25 basis points at the beginning of each quarter	**(148,716)**	(131,188)

Change in projected net interest income in next 12 months arising from a shift in interest rates of:	Bank	
	31-Dec-11 RM'000	31-Dec-10 RM'000
+100 basis points parallel shift in yield curves	**211,430**	189,574
-100 basis points parallel shift in yield curves	**(204,402)**	(174,637)
+25 basis points at the beginning of each quarter	**146,404**	124,113
-25 basis points at the beginning of each quarter	**(143,952)**	(120,013)

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

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

	Group	
	31-Dec-11 RM'000	31-Dec-10 RM'000
+100 basis points parallel shift in yield curves	**(88,574)**	(53,600)
-100 basis points parallel shift in yield curves	**88,574**	53,600

	Bank	
	31-Dec-11 RM'000	31-Dec-10 RM'000
+100 basis points parallel shift in yield curves	**(83,593)**	(48,515)
-100 basis points parallel shift in yield curves	**83,593**	48,515

Foreign exchange risk

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

Specific issuer risk

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

Equity risk

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

4 Financial risk management (Cont'd)

e) Operational risk management

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

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

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

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

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

f) Capital management

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

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

5 Use of estimates and judgements

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

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

i) Impairment of loans, advances and financing

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

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

ii) Valuation of financial instruments

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

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

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

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

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

5 Use of estimates and judgements (Cont'd)

ii) Valuation of financial instruments (Cont'd)

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

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

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

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Group (RM'000)				
Financial Assets Held-for-Trading (Note 8)	**1,755,453**	**4,461,784**	**-**	**6,217,237**
Financial Investments Available-for-Sale* (Note 9)	**4,078,590**	**778,321**	**-**	**4,856,911**
Derivative financial assets (Note 12)	**2,517**	**1,339,543**	**116,462**	**1,458,522**
	5,836,560	**6,579,648**	**116,462**	**12,532,670**
Derivative financial liabilities (Note 21)	**7,318**	**1,147,436**	**64,759**	**1,219,513**
	7,318	**1,147,436**	**64,759**	**1,219,513**
Bank (RM'000)				
Financial Assets Held-for-Trading (Note 8)	**1,538,737**	**4,461,784**	**-**	**6,000,521**
Financial Investments Available-for-Sale* (Note 9)	**3,656,504**	**778,321**	**-**	**4,434,825**
Derivative financial assets (Note 12)	**2,517**	**1,327,863**	**112,414**	**1,442,794**
	5,197,758	**6,567,968**	**112,414**	**11,878,140**
Derivative financial liabilities (Note 21)	**7,318**	**1,152,407**	**64,485**	**1,224,210**
	7,318	**1,152,407**	**64,485**	**1,224,210**

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

5 Use of estimates and judgements (Cont'd)

ii) Valuation of financial instruments (Cont'd)

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

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

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

	2011		2010	
	Derivative financial assets	**Derivative financial liabilities**	Derivative financial assets	Derivative financial liabilities
Group (RM'000)				
Balance at 1 January	**68,560**	**55,909**	102,747	92,584
Total gains or losses:				
in profit or loss	**47,030**	**21,743**	9,675	(1,815)
Settlements	**(1,335)**	**(2,881)**	-	-
Transfers into Level 3	**12,121**	**4,481**	-	-
Transfer out of Level 3	**(9,914)**	**(14,493)**	(43,862)	(34,860)
Balance at 31 December	**116,462**	**64,759**	68,560	55,909

	2011		2010	
	Derivative financial assets	**Derivative financial liabilities**	Derivative financial assets	Derivative financial liabilities
Bank (RM'000)				
Balance at 1 January	**63,506**	**50,855**	95,137	84,974
Total gains or losses:				
in profit or loss	**48,036**	**26,524**	11,125	(365)
Settlements	**(1,335)**	**(2,882)**	-	-
Transfers into Level 3	**12,121**	**4,481**	-	-
Transfer out of Level 3	**(9,914)**	**(14,493)**	(42,756)	(33,754)
Balance at 31 December	**112,414**	**64,458**	63,506	50,855

5 Use of estimates and judgements (Cont'd)

ii) Valuation of financial instruments (Cont'd)

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

2011 **Group (RM'000)**	**Derivative financial assets**	**Derivative financial liabilities**
Total gains or losses included in profit or loss for the year ended:		
-Net trading income	**(10,474)**	**(1,159)**
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the reporting year		
-Net trading income	**57,504**	**22,902**
2011 **Bank (RM'000)**	**Derivative financial assets**	**Derivative financial liabilities**
Total gains or losses included in profit or loss for the year ended:		
-Net trading income	**(6,002)**	**3,313**
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the reporting year		
-Net trading income	**54,038**	**23,211**

2010 **Group (RM'000)**	Derivative financial assets	Derivative financial liabilities
Total gains or losses included in profit or loss for the year ended:		
-Net trading income	(14,343)	(16,413)
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the reporting year		
-Net trading income	24,018	14,598
2010 **Bank (RM'000)**	Derivative financial assets	Derivative financial liabilities
Total gains or losses included in profit or loss for the year ended:		
-Net trading income	(11,780)	(13,850)
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the reporting year		
-Net trading income	22,905	13,485

5 Use of estimates and judgements (Cont'd)

ii) Valuation of financial instruments (Cont'd)

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one of more of the assumptions used to reasonably possible alternative assumptions would have the following effects:

	2011		2010	
	Effect on profit or loss		Effect on profit or loss	
	Favourable	**(Unfavourable)**	Favourable	(Unfavourable)
Group (RM'000)				
Derivative financial assets	**9,535**	**(9,535)**	1,517	(1,517)
Derivative financial liabilities	**1,747**	**(1,747)**	2,599	(2,599)
	11,282	**(11,282)**	4,116	(4,116)

6 Cash and Short Term Funds

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Cash and balances with banks and other financial institutions	**5,036,115**	1,998,438	**4,922,703**	1,970,221
Money at call and deposit placements maturing within one month	**16,567,112**	9,817,166	**15,369,569**	8,688,639
	21,603,227	11,815,604	**20,292,272**	10,658,860

7 Deposits and Placements with Banks and Other Financial Institutions

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Licensed banks	**206,958**	-	**3,242,238**	1,140,834
Bank Negara Malaysia	**-**	200,000	**-**	200,000
Other financial institutions	**444,820**	130,981	**444,820**	130,981
	651,778	330,981	**3,687,058**	1,471,815

8 Financial Assets Held-for-Trading

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
At fair value	**RM'000**	RM'000	**RM'000**	RM'000
Money market instruments:				
Malaysian Government treasury bills	**457,224**	667,045	**457,224**	602,685
Bank Negara Malaysia bills and notes	**3,995,371**	1,918,290	**3,995,371**	1,918,290
Bank Negara Malaysia Islamic bills	**9,189**	587,127	**9,189**	587,127
Malaysian Government securities	**1,175,581**	1,178,902	**1,175,581**	1,178,902
Malaysian Government Islamic bonds	**291,877**	131,110	**75,161**	72,558
Cagamas bonds and notes	**21,751**	3,332	**21,751**	3,332
	5,950,993	4,485,806	**5,734,277**	4,362,894
Unquoted securities:				
Private debt securities (including commercial paper)	**266,244**	409,254	**266,244**	384,160
	6,217,237	4,895,060	**6,000,521**	4,747,054

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

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
Money market instruments:	**RM'000**	RM'000	**RM'000**	RM'000
Malaysian Government treasury bills				
A+ to A-	**457,224**	667,045	**457,224**	602,685
Bank Negara Malaysia bills and notes				
A+ to A-	**3,995,371**	1,918,290	**3,995,371**	1,918,290
Bank Negara Malaysia Islamic bills				
A+ to A-	**9,189**	587,127	**9,189**	587,127
Malaysian Government securities				
A+ to A-	**1,175,581**	1,178,902	**1,175,581**	1,178,902
Malaysian Government Islamic bonds				
A+ to A-	**291,877**	131,110	**75,161**	72,558
Cagamas bonds and notes				
Unrated	**21,751**	3,332	**21,751**	3,332
Unquoted securities:				
Private debt securities (including commercial paper)				
AA+ to AA-	**-**	101,348	**-**	101,348
A+ to A-	**11,001**	5,113	**11,001**	5,113
BBB+ to BBB-	**22,907**	-	**22,907**	-
Unrated	**232,336**	302,793	**232,336**	277,699
	6,217,237	4,895,060	**6,000,521**	4,747,054

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

9 Financial Investments Available-for-Sale

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
At fair value	**RM'000**	RM'000	**RM'000**	RM'000
Money market instruments:				
Malaysian Government treasury bills	**-**	98,704	**-**	98,704
Malaysian Government securities	**990,871**	933,468	**990,871**	933,468
Malaysian Government Islamic bonds	**1,511,514**	664,725	**1,114,432**	368,564
Cagamas bonds and notes	**45,499**	65,844	**45,499**	65,844
Negotiable instruments of deposit	**1,530,235**	375,029	**1,505,231**	345,027
Bankers' acceptance and Islamic accepted bills	**778,321**	1,233,033	**778,321**	1,228,531
	4,856,440	3,370,803	**4,434,354**	3,040,138
Quoted securities:				
Shares	**-**	10,696	**-**	10,696
Unquoted securities:				
Shares*	**16,907**	16,907	**16,907**	16,907
Private and Islamic debt securities	**471**	5,499	**471**	5,499
	17,378	22,406	**17,378**	22,406
Impairment loss: Quoted securities:				
Shares	**-**	(3,815)	**-**	(3,815)
	4,873,818	3,400,090	**4,451,732**	3,069,425

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

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

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Maturing within one year	**2,509,610**	2,068,706	**2,303,594**	2,034,202
More than one year to three years	**1,356,248**	607,366	**1,140,178**	311,205
More than three years to five years	**778,983**	487,064	**778,983**	487,064
Over five years	**211,599**	207,667	**211,599**	207,667
	4,856,440	3,370,803	**4,434,354**	3,040,138

10 Loans, Advances and Financing

(i) By type

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
At amortised cost	**RM'000**	RM'000	**RM'000**	RM'000
Overdrafts	**1,258,278**	1,196,751	**1,208,525**	1,182,249
Term loans/ financing				
Housing loans/ financing	**13,326,278**	11,394,601	**12,053,927**	10,934,428
Syndicated term loans/ financing	**77,188**	83,345	**77,188**	83,345
Factoring receivables	**107,032**	68,903	**107,032**	68,903
Hire purchase receivables	**258,817**	177,462	**183**	1,081
Lease receivables	**942**	2,807	**813**	2,620
Other term loans/ financing	**11,341,894**	9,416,156	**6,712,714**	6,281,513
Bills receivable	**2,906,337**	2,691,106	**2,906,337**	2,691,106
Trust receipts	**1,630,471**	984,483	**1,605,334**	983,779
Claims on customers under acceptance credits	**3,088,510**	3,125,331	**2,033,632**	2,367,254
Staff loans/ financing	**405,273**	398,694	**384,895**	389,362
Credit/ charge cards	**2,937,361**	2,838,223	**2,571,414**	2,576,706
Revolving credit	**2,874,906**	2,654,619	**2,706,180**	2,654,619
Other loans/ financing	**9,157**	8,703	**9,157**	8,703
Less: Unearned income	**(114,198)**	(66,727)	-	-
Gross loans, advances and financing	**40,108,246**	34,974,457	**32,377,331**	30,225,668
Less: Allowances for impaired loans, advances and financing				
- Collective allowances for impairment	**(596,680)**	(519,055)	**(481,380)**	(448,400)
- Individual allowances for impairment	**(354,634)**	(379,358)	**(285,365)**	(337,500)
Total net loans, advances and financing	**39,156,932**	34,076,044	**31,610,586**	29,439,768

(ii) By type of customer

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Domestic non-bank financial institutions				
Stockbroking companies	**143,155**	152,941	**143,155**	152,941
Others	**262**	355	**262**	277
Domestic business enterprises				
Small medium enterprises	**7,719,820**	5,946,355	**5,964,674**	5,003,898
Others	**10,610,995**	9,531,400	**8,291,558**	7,969,106
Government and statutory bodies	**25,086**	25,443	**-**	-
Individuals	**19,337,138**	17,187,695	**16,119,971**	15,218,354
Other domestic entities	**9,847**	10,253	**6,913**	6,639
Foreign entities	**2,261,943**	2,120,015	**1,850,798**	1,874,453
	40,108,246	34,974,457	**32,377,331**	30,225,668

(iii) By residual contractual maturity

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Maturity within one year	**17,680,325**	17,682,717	**13,803,316**	15,199,183
More than one year to three years	**1,666,401**	1,837,382	**992,216**	1,198,346
More than three years to five years	**3,102,649**	1,965,029	**1,928,864**	1,029,074
More than five years	**17,658,871**	13,489,329	**15,652,935**	12,799,065
	40,108,246	34,974,457	**32,377,331**	30,225,668

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10 Loans, Advances and Financing (Cont'd)

(iv) By interest/ profit rate sensitivity

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Fixed rate				
Housing loans/ financing	**193,847**	218,546	**179,035**	197,028
Hire purchase receivables	**234,608**	162,816	**183**	1,081
Other fixed rate loans/ financing	**5,238,831**	5,241,626	**2,161,955**	2,524,123
Variable rate				
BLR plus	**26,068,227**	22,720,874	**24,758,564**	22,272,111
Cost-plus	**2,706,180**	2,654,619	**2,706,180**	2,654,619
Other variable rates	**5,666,553**	3,975,976	**2,571,414**	2,576,706
	40,108,246	34,974,457	**32,377,331**	30,225,668

(v) By sector

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Agricultural, hunting, forestry and fishing	**1,672,328**	1,091,735	**1,176,982**	993,947
Mining and quarrying	**463,272**	374,731	**305,216**	236,627
Manufacturing	**7,198,362**	7,121,615	**5,659,143**	6,030,757
Electricity, gas and water	**409,302**	193,672	**332,674**	181,399
Construction	**1,086,318**	852,605	**829,478**	771,815
Real estate	**1,617,888**	1,257,425	**1,223,834**	933,687
Wholesale & retail trade and restaurants & hotels	**2,483,306**	2,050,233	**2,122,378**	1,819,014
Transport, storage and communication	**573,834**	446,622	**166,566**	213,563
Finance, insurance and business services	**1,425,523**	1,454,107	**1,244,628**	1,220,693
Household-retail	**20,701,268**	18,230,265	**17,340,725**	16,229,546
Others	**2,476,845**	1,901,447	**1,975,707**	1,594,620
	40,108,246	34,974,457	**32,377,331**	30,225,668

(vi) By purpose

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Purchase of landed property:				
-Residential	**13,672,770**	11,771,923	**12,418,600**	11,316,312
-Non residential	**1,438,326**	1,399,753	**1,375,324**	1,374,284
Purchase of securities	**23,097**	31,626	**23,097**	30,607
Purchase of transport vehicles	**45,028**	46,757	**43,450**	45,293
Purchase of fixed assets excluding land & building	**57,469**	76,779	**-**	-
Consumption credit	**6,463,263**	5,895,473	**4,360,413**	4,353,929
Construction	**1,086,318**	852,605	**829,478**	771,815
Working capital	**16,379,831**	13,779,292	**12,680,525**	11,456,267
Other purpose	**942,144**	1,120,249	**646,444**	877,161
	40,108,246	34,974,457	**32,377,331**	30,225,668

10 Loans, Advances and Financing (Cont'd)

(vii) By geographical distribution

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Northern region	**7,196,649**	6,702,818	**5,778,787**	5,748,276
Southern region	**5,584,516**	4,496,785	**4,470,395**	3,979,936
Central region	**22,188,370**	19,649,521	**17,791,871**	16,788,288
Eastern region	**5,138,711**	4,125,333	**4,336,278**	3,709,168
	40,108,246	34,974,457	**32,377,331**	30,225,668

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

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

11 Impaired Loans, Advances and Financing

(i) Movements in impaired loans, advances and financing

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
At beginning of year	**692,481**	667,236	**621,671**	611,783
Classified as impaired during the year	**717,773**	623,462	**548,073**	527,129
Reclassified as performing	**(197,762)**	(158,638)	**(197,270)**	(157,182)
Amount recovered	**(230,121)**	(194,622)	**(189,795)**	(175,838)
Amount written off	**(269,229)**	(263,127)	**(185,938)**	(196,877)
Other movements	**28,264**	18,170	**18,977**	12,656
At end of year	**741,406**	692,481	**615,718**	621,671
Individual allowance for impairment	**(354,634)**	(379,358)	**(285,365)**	(337,500)
Net impaired loans, advances and financing	**386,772**	313,123	**330,353**	284,171

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

	Group		Bank	
Collective allowance for impairment	**31 Dec 2011**	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
At beginning of year	**519,055**	440,297	**448,400**	387,700
Made during the year	**109,935**	90,588	**63,045**	71,600
Amount written back	**(32,310)**	(11,830)	**(30,065)**	(10,900)
At end of year	**596,680**	519,055	**481,380**	448,400

Individual allowance for impairment				
At beginning of year, as previously stated	**379,358**	390,789	**337,500**	355,406
-effect of adopting FRS 139	**-**	(12,379)	**-**	(12,336)
At beginning of year, as restated	**379,358**	378,410	**337,500**	343,070
Made during the year	**241,666**	274,172	**144,076**	205,403
Amount recovered	**(66,273)**	(57,488)	**(62,129)**	(51,820)
Amount written off	**(226,506)**	(228,961)	**(150,878)**	(167,416)
Discount unwind	**(2,208)**	(3,946)	**(2,514)**	(3,350)
Other movements	**28,597**	17,171	**19,310**	11,613
At end of year	**354,634**	379,358	**285,365**	337,500

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

(iii) By sector

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Agricultural, hunting, forestry and fishing	**864**	1,185	**864**	1,185
Manufacturing	**109,995**	122,760	**100,927**	119,831
Construction	**1,128**	4,703	**1,128**	4,703
Real estate	**87**	8,590	**87**	8,590
Wholesale & retail trade, restaurants & hotels	**53,599**	67,537	**49,318**	62,291
Transport, storage and communication	**8,946**	10,940	**8,946**	10,860
Finance, insurance and business services	**2,578**	3,635	**2,578**	2,950
Household-retail	**563,964**	472,908	**451,625**	411,038
Others	**245**	223	**245**	223
	741,406	692,481	**615,718**	621,671

(iv) By purpose

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Purchase of landed property:				
-Residential	**257,490**	222,778	**238,458**	220,560
-Non residential	**33,009**	35,713	**32,898**	35,602
Purchase of securities	**-**	29	**-**	29
Purchase of transport vehicles	**187**	166	**184**	166
Consumption credit	**296,242**	239,632	**202,938**	179,980
Construction	**1,128**	4,703	**1,128**	4,703
Working capital	**153,022**	189,460	**140,112**	180,631
Other purpose	**328**	-	**-**	-
	741,406	692,481	**615,718**	621,671

(v) By geographical distribution

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Northern region	**180,199**	150,506	**148,177**	131,287
Southern region	**181,464**	176,563	**158,407**	163,698
Central region	**289,131**	270,384	**224,996**	238,703
Eastern region	**90,612**	95,028	**84,138**	87,983
	741,406	692,481	**615,718**	621,671

12 Other Assets

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Derivative financial assets (Note 38)	**1,458,522**	1,133,709	**1,442,794**	1,122,554
Interest/ income receivable	**72,858**	45,932	**69,224**	44,881
Other receivables, deposits and prepayments	**410,003**	843,912	**401,638**	811,455
	1,941,383	2,023,553	**1,913,656**	1,978,890

13 Statutory Deposits with Bank Negara Malaysia

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

14 Investments in Subsidiary Companies

	Group		*Bank*	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Unquoted shares, at cost - in Malaysia	**-**	-	**660,021**	660,021

The subsidiary companies of the Bank are as follows:

Name	*Principal activities*	*Country of incorporation*	*Percentage of equity held*	
			31 Dec 2011	31 Dec 2010
HSBC (Kuala Lumpur) Nominees Sdn Bhd*	Nominee company	Malaysia	**100%**	100%
HSBC Nominees (Tempatan) Sdn Bhd*	Nominee company	Malaysia	**100%**	100%
HSBC Nominees (Asing) Sdn Bhd*	Nominee company	Malaysia	**100%**	100%
HSBC Amanah Malaysia Berhad*	Islamic bank	Malaysia	**100%**	100%

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

* *Audited by KPMG Malaysia*

15 Investment in a Jointly Controlled Entity

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

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16 Property and Equipment

2011	Freehold land	Short term leasehold land	Long term leasehold land	Buildings on freehold land	Buildings on short term leasehold land	Buildings on long term leasehold land	Office equipment, fixtures and fittings	Computer equipment	Motor vehicles	Total
	Group									
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost or valuation										
Balance as at 1 January 2011	79,903	16,760	4,943	113,846	11,183	3,566	201,336	141,155	3,294	575,986
Additions	-	-	70	2,963	-	-	47,002	15,286	494	65,815
Disposals	-	-	-	-	-	-	(148)	-	(619)	(767)
Written off	-	-	-	-	-	-	(4,227)	(1,454)	-	(5,681)
Adjustments for revaluation	10,325	(102)	(70)	(2,432)	(10)	-	-	-	-	7,711
Balance as at 31 December 2011	90,228	16,658	4,943	114,377	11,173	3,566	243,963	154,987	3,169	643,064
Representing items at:										
Cost	-	-	-	-	-	-	243,963	154,987	3,169	402,119
Valuation - 2011	90,228	16,658	4,943	114,377	11,173	3,566	-	-	-	240,945
	90,228	16,658	4,943	114,377	11,173	3,566	243,963	154,987	3,169	643,064
Accumulated depreciation										
Balance as at 1 January 2011	-	1,754	509	-	-	-	140,454	113,060	1,728	257,505
Charge for the year	-	395	104	2,688	278	83	24,160	12,876	649	41,233
Disposals	-	-	-	-	-	-	(147)	-	(459)	(606)
Written off	-	-	-	-	-	-	(4,098)	(1,454)	-	(5,552)
Adjustments for revaluation	-	(395)	(104)	(2,688)	(278)	(83)	-	-	-	(3,548)
Balance as at 31 December 2011	-	1,754	509	-	-	-	160,369	124,482	1,918	289,032
Net book value at 31 December 2011	90,228	14,904	4,434	114,377	11,173	3,566	83,594	30,505	1,251	354,032

The land and buildings of the Group and the Bank were revalued on the open market value basis as of 31 December 2011 based on professional valuations.

16 Property and Equipment (Cont'd)

	Bank									
2011	*Freehold land*	*Short term leasehold land*	*Long term leasehold land*	*Buildings on freehold land*	*Buildings on short term leasehold land*	*Buildings on long term leasehold land*	*Office equipment, fixtures and fittings*	*Computer equipment*	*Motor vehicles*	*Total*
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cost or valuation										
Balance as at 1 January 2011	**79,903**	**16,760**	**4,943**	**113,846**	**11,183**	**3,566**	**186,603**	**134,131**	**3,201**	**554,136**
Additions	**-**	**-**	**70**	**2,963**	**-**	**-**	**43,485**	**11,383**	**273**	**58,174**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**(148)**	**-**	**(619)**	**(767)**
Written off	**-**	**-**	**-**	**-**	**-**	**-**	**(3,615)**	**(1,454)**	**-**	**(5,069)**
Net transfers (to)/from subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**(6)**	**(506)**	**-**	**(512)**
Adjustments for revaluation	**10,325**	**(102)**	**(70)**	**(2,432)**	**(10)**	**-**	**-**	**-**	**-**	**7,711**
Balance as at 31 December 2011	**90,228**	**16,658**	**4,943**	**114,377**	**11,173**	**3,566**	**226,319**	**143,554**	**2,855**	**613,673**
Representing items at:										
Cost	**-**	**-**	**-**	**-**	**-**	**-**	**226,319**	**143,554**	**2,855**	**372,728**
Valuation - 2011	**90,228**	**16,658**	**4,943**	**114,377**	**11,173**	**3,566**	**-**	**-**	**-**	**240,945**
	90,228	**16,658**	**4,943**	**114,377**	**11,173**	**3,566**	**226,319**	**143,554**	**2,855**	**613,673**
Accumulated depreciation										
Balance as at 1 January 2011	**-**	**1,754**	**509**	**-**	**-**	**-**	**136,895**	**111,287**	**1,635**	**252,080**
Charge for the year	**-**	**395**	**104**	**2,688**	**278**	**83**	**20,247**	**11,210**	**612**	**35,617**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**(147)**	**-**	**(459)**	**(606)**
Written off	**-**	**-**	**-**	**-**	**-**	**-**	**(3,537)**	**(1,454)**	**-**	**(4,991)**
Net transfers (to)/from subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**16**	**-**	**15**
Adjustments for revaluation	**-**	**(395)**	**(104)**	**(2,688)**	**(278)**	**(83)**	**-**	**-**	**-**	**(3,548)**
Balance as at 31 December 2011	**-**	**1,754**	**509**	**-**	**-**	**-**	**153,457**	**121,059**	**1,788**	**278,567**
Net book value at 31 December 2011	**90,228**	**14,904**	**4,434**	**114,377**	**11,173**	**3,566**	**72,862**	**22,495**	**1,067**	**335,106**

The land and buildings of the Group and the Bank were revalued on the open market value basis as of 31 December 2011 based on professional valuations.

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16 Property and Equipment (Cont'd)

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

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

16 Property and Equipment (Cont'd)

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

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

17 Intangible Assets

	Group	*Bank*
	Computer software	
2011	**RM'000**	**RM'000**
Cost		
Balance as at 1 January 2011	**161,691**	**155,812**
Additions	**24,082**	**24,077**
Written off	**(1,403)**	**(1,403)**
Reversal of capitalised charges	**(810)**	**-**
Balance as at 31 December 2011	**183,560**	**178,486**
Accumulated depreciation		
Balance as at 1 January 2011	**101,070**	**96,690**
Charge for the year	**25,463**	**25,230**
Written off	**(1,403)**	**(1,403)**
Impairment of intangible assets charged to income statement	**5,167**	**5,167**
As at 31 December 2011	**130,297**	**125,684**
Accumulated depreciation	***125,130***	***120,517***
Accumulated impairment loss	***5,167***	***5,167***
Net book value as at 31 December 2011	**53,263**	**52,802**

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

18 Deferred Tax

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

	Group		*Bank*	
	2011	2010	**2011**	2010
	RM'000	RM'000	**RM'000**	RM'000
Deferred tax liabilities	**(43,547)**	(39,105)	**(41,483)**	(37,377)
Deferred tax assets	**137,792**	207,449	**120,546**	187,719
	94,245	168,344	**79,063**	150,342

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

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

	Group		*Bank*	
	2011	2010	**2011**	2010
	RM'000	RM'000	**RM'000**	RM'000
Property, plant and equipment				
Capital allowances	**(20,510)**	(18,322)	**(18,510)**	(16,594)
Revaluation	**(18,950)**	(19,233)	**(18,950)**	(19,233)
Available-for-sale reserve	**(3,636)**	(1,504)	**(3,587)**	(1,550)
Cash flow hedge reserve	**(285)**	-	**(285)**	-
Allowances				
Collective impairment allowance	**18,886**	127,158	**8,245**	112,100
Others	**113,269**	78,448	**106,664**	73,825
Lease receivables	**(166)**	238	**(151)**	235
Share based payments	**5,637**	1,559	**5,637**	1,559
	94,245	168,344	**79,063**	150,342

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18 Deferred tax (Cont'd)

Movement in temporary differences during the year

	Group						
	As at 01-Jan-10	*Recognised in income statement*	*Recognised in other comprehensive income*	*As at 31-Dec-10 / 01-Jan-11*	*Recognised in income statement*	*Recognised in other comprehensive income*	*As at 31-Dec-11*
	RM'000	RM'000	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Property, plant and equipment							
- capital allowances	(17,533)	(789)	-	**(18,322)**	**(2,188)**	**-**	**(20,510)**
- revaluation	(18,874)	491	(850)	**(19,233)**	**519**	**(236)**	**(18,950)**
Available-for-sale reserve	3,801	-	(5,305)	**(1,504)**	**-**	**(2,132)**	**(3,636)**
Cash flow hedge reserve	-	-	-	**-**	**-**	**(285)**	**(285)**
Allowances							
- collective impairment allowance	110,074	17,084	-	**127,158**	**(108,272)**	**-**	**18,886**
- others	3,646	74,802	-	**78,448**	**34,821**	**-**	**113,269**
Lease receivables	(59)	297	-	**238**	**(404)**	**-**	**(166)**
Share based payments	1,559	-	-	**1,559**	**4,078**	**-**	**5,637**
	82,614	91,885	(6,155)	**168,344**	**(71,446)**	**(2,653)**	**94,245**

	Bank						
	As at 01-Jan-10	*Recognised in income statement*	*Recognised in other comprehensive income*	*As at 31-Dec-10 / 01-Jan-11*	*Recognised in income statement*	*Recognised in other comprehensive income*	*As at 31-Dec-11*
	RM'000	RM'000	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Property, plant and equipment							
- capital allowances	(16,749)	155	-	**(16,594)**	**(1,916)**	**-**	**(18,510)**
- revaluation	(18,874)	491	(850)	**(19,233)**	**519**	**(236)**	**(18,950)**
Available-for-sale reserve	3,947	-	(5,497)	**(1,550)**	**-**	**(2,037)**	**(3,587)**
Cash flow hedge reserve	-	-	-	**-**	**-**	**(285)**	**(285)**
Allowances							
- collective impairment allowance	96,925	15,175	-	**112,100**	**(103,855)**	**-**	**8,245**
- others	1,970	71,855	-	**73,825**	**32,839**	**-**	**106,664**
Lease receivables	(48)	283	-	**235**	**(386)**	**-**	**(151)**
Share based payments	1,559	-	-	**1,559**	**4,078**	**-**	**5,637**
	68,730	87,959	(6,347)	**150,342**	**(68,721)**	**(2,558)**	**79,063**

19 Deposits from Customers

(i) By type of deposit

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Demand deposits	**13,308,265**	10,452,840	**12,634,457**	9,939,130
Savings deposits	**9,096,358**	8,225,387	**8,273,878**	7,570,037
Fixed / Investment deposits	**26,877,993**	23,847,727	**23,097,804**	21,363,980
Negotiable instruments of deposit	**2,985,317**	860,786	**2,969,917**	860,786
Wholesale money market deposits	**2,801,305**	2,379,524	**2,801,305**	2,379,524
Others	**3,454,608**	2,573,160	**3,270,254**	2,443,452
	58,523,846	48,339,424	**53,047,615**	44,556,909

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

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Due within six months	**22,183,256**	19,308,201	**18,965,859**	17,143,088
More than six months to one year	**4,353,669**	4,311,527	**3,805,559**	4,016,246
More than one year to three years	**2,861,160**	689,572	**2,846,478**	670,836
More than three years to five years	**465,225**	399,076	**449,825**	394,459
Over 5 years	**-**	137	**-**	137
	29,863,310	24,708,513	**26,067,721**	22,224,766

(ii) By type of customer

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Government and statutory bodies	**108,696**	152,207	**22,072**	17,688
Business enterprises	**23,408,090**	17,364,412	**21,717,218**	15,792,441
Individuals	**25,229,201**	23,637,923	**22,152,569**	21,937,928
Others	**9,777,859**	7,184,882	**9,155,756**	6,808,852
	58,523,846	48,339,424	**53,047,615**	44,556,909

20 Deposits and Placements from Banks and Other Financial Institutions

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Bank Negara Malaysia	**125,888**	68,133	**77,482**	68,133
Other financial institutions	**9,783,074**	6,784,915	**9,352,072**	6,193,403
	9,908,962	6,853,048	**9,429,554**	6,261,536

21 Other Liabilities

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Derivative financial liabilities	**1,219,513**	970,123	**1,224,210**	958,968
Interest/ profit payable	**208,360**	176,702	**189,309**	161,520
Allowance for commitments and contingencies	**-**	1,980	**-**	1,980
Profit equalisation reserve	**6,700**	6,700	**-**	-
Other creditors and accruals	**3,328,327**	1,198,988	**3,431,858**	1,154,728
	4,762,900	2,354,493	**4,845,377**	2,277,196

Movement in allowance for commitments and contingencies is as follows:

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
At the beginning of year	**1,980**	2,440	**1,980**	2,440
Allowance made during the year	**-**	32	**-**	32
Amount released	**(1,980)**	(492)	**(1,980)**	(492)
	(1,980)	(460)	**(1,980)**	(460)
At the end of year	**-**	1,980	**-**	1,980

22 Provision for Taxation and Zakat

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Taxation	**53,103**	103,058	**46,265**	98,710
Zakat	**-**	100	**-**	-
	53,103	103,158	**46,265**	98,710

23 Subordinated Bonds

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Subordinated bonds, at par	**1,000,000**	1,000,000	**1,000,000**	1,000,000
Fair value changes arising from fair value hedge	**15,200**	3,039	**15,200**	3,039
	1,015,200	1,003,039	**1,015,200**	1,003,039

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

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

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

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

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

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

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

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

24 Share Capital

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Authorised				
1 billion ordinary shares of RM0.50 each	**500,000**	500,000	**500,000**	500,000
1 billion preference shares of RM0.50 each	**500,000**	500,000	**500,000**	500,000
	1,000,000	1,000,000	**1,000,000**	1,000,000
Issued and Fully Paid				
229 million ordinary shares of RM0.50 each	**114,500**	114,500	**114,500**	114,500

25 Reserves

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
		Restated		Restated
Share premium	**741,375**	741,375	**741,375**	741,375
Statutory reserve	**164,500**	164,500	**114,500**	114,500
Revaluation reserve	**148,597**	139,110	**148,597**	139,110
Capital redemption reserve	**190,000**	190,000	**190,000**	190,000
Cash flow hedge reserve	**854**	-	**854**	-
Available-for-sale reserve	**10,914**	4,512	**10,766**	4,648
Capital contribution reserve	**89,811**	81,169	**89,115**	80,834
Retained profits	**3,179,045**	2,635,920	**3,025,829**	2,561,268
	4,525,096	3,956,586	**4,321,036**	3,831,735

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

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

Subject to agreement by the Inland Revenue Board, the Bank has sufficient Section 108 tax credit and tax exempt income to distribute approximately RM1,271,003,000 of its unappropriated profits at 31 December 2011, if paid out as dividends.

The Finance Act, 2007 introduced a single tier income tax system with effect from 1 January 2007. As such, the remaining Section 108 tax credit as at 31 December 2011 will be available to the Bank until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

26 Net Interest Income

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
Interest income	**RM'000**	RM'000	**RM'000**	RM'000
Loans and advances		*Restated*		*Restated*
- Interest income other than from impaired loans	**1,588,940**	1,385,390	**1,588,940**	1,385,390
- Interest income recognised from impaired loans	**2,514**	3,350	**2,514**	3,350
Money at call and deposit placements with financial institutions	**512,411**	424,533	**564,699**	458,106
Financial investments available-for-sale	**91,868**	80,564	**91,868**	80,564
Fair value hedge derivative assets	**4,388**	7,135	**4,388**	7,135
	2,200,121	1,900,972	**2,252,409**	1,934,545
Interest expense				
Deposits and placements of banks and other financial institutions	**(94,601)**	(49,826)	**(94,601)**	(49,826)
Deposits from customers	**(886,605)**	(679,747)	**(886,605)**	(679,747)
Loans sold to Cagamas	**(6,674)**	(24,965)	**(6,674)**	(24,965)
Subordinated bonds	**(47,000)**	(47,000)	**(47,000)**	(47,000)
Others	**(14,422)**	(6,416)	**(14,422)**	(6,416)
	(1,049,302)	(807,954)	**(1,049,302)**	(807,954)
Net interest income	**1,150,819**	1,093,018	**1,203,107**	1,126,591

27 Net Fee and Commission Income

	Group and Bank	
	31 Dec 2011	31 Dec 2010
Fee and commission income	**RM'000**	RM'000
Credit cards	**171,206**	178,779
Service charges and fees	**154,927**	142,392
Fees on credit facilities	**31,831**	30,854
Agency fee	**79,467**	58,925
Others	**55,921**	49,791
	493,352	460,741
Fee and commission expense		
Interbank and clearing fees	**(1,104)**	(899)
Brokerage	**(2,845)**	(2,400)
Others	**(20,401)**	(26,850)
	(24,350)	(30,149)
Net fee and commission income	**469,002**	430,592

28 Net Trading Income

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Financial assets held-for-trading and other financial instruments	**126,236**	59,725	**126,236**	59,725
Net interest income from financial assets held-for-trading	**107,255**	73,648	**107,255**	73,648
Net unrealised (losses)/gains on revaluation of financial assets held-for-trading	**(5,198)**	4,781	**(5,198)**	4,781
Net gains arising from dealing in foreign currency	**459,925**	296,148	**459,925**	296,148
Net unrealised (losses)/gains from dealing in foreign currency	**(15,599)**	59,122	**(15,599)**	59,122
Net gains arising from trading in derivatives	**1,691**	3,406	**1,566**	3,406
Net unrealised gains on revaluation of derivatives	**49,343**	52,187	**44,801**	52,187
Losses arising from fair value hedges	**(37)**	(15)	**(37)**	(15)
	723,616	549,002	**718,949**	549,002

29 Income from Islamic Banking operations

	Group	
	31 Dec 2011	31 Dec 2010
	RM'000	RM'000
Income derived from investment of depositor funds and others	**451,054**	314,951
Income derived from investment of shareholders funds	**87,417**	74,169
Income attributable to the depositors	**(107,204)**	(66,486)
Income from Islamic Banking operations	**431,267**	322,634

30 Other Operating Income

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Disposal of financial investments available-for-sale	**1,698**	8,725	**1,698**	8,725
Dividend income from financial investments available-for-sale				
- Unquoted in Malaysia	**1,119**	1,161	**1,119**	1,161
- Quoted outside Malaysia	**57**	299	**57**	299
Rental income	**6,862**	6,865	**6,862**	6,865
Net gains on disposal of property and equipment	**303**	15	**303**	15
Net (downwards)/upwards revaluation on property	**(11)**	18	**(11)**	18
Other operating income	**23,815**	24,990	**121,142**	123,488
	33,843	42,073	**131,170**	140,571

31 Loans/ Financing Impairment Charges and other Credit Risk Provisions

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Impairment charges on loans and financing:				
(a) Individual impairment				
Made during the financial year	**241,666**	274,172	**144,076**	205,403
Written back	**(66,273)**	(57,488)	**(62,129)**	(51,820)
(b) Collective impairment				
Made during the financial year	**109,935**	90,588	**63,045**	71,600
Written back	**(32,310)**	(11,830)	**(30,065)**	(10,900)
Impaired loans				
Recovered during the financial year	**(95,712)**	(89,810)	**(74,296)**	(74,790)
Written off	**42,722**	34,166	**35,060**	29,461
Impairment charges on commitments and contingencies:				
Written back	**(1,980)**	(492)	**(1,980)**	(492)
Impairment charges on other credit related items				
Made during the financial year	**-**	32	**-**	32
	198,048	239,338	**73,711**	168,494

32 Other Operating Expenses

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Personnel expenses	**600,145**	551,379	**573,694**	527,908
Promotion and marketing related expenses	**77,250**	90,102	**66,859**	80,218
Establishment related expenses	**155,801**	141,538	**142,072**	130,159
General administrative expenses	**381,352**	367,830	**367,738**	356,123
	1,214,548	1,150,849	**1,150,363**	1,094,408

The above expenditure includes the following major items :

	Group		Bank	
Personnel expenses				
Salaries, allowances and bonuses	**448,502**	422,733	**427,492**	404,263
Employees Provident Fund contributions	**75,707**	69,578	**72,311**	66,517
Promotion and marketing related expenses				
Advertising and promotion	**52,327**	68,444	**44,691**	58,560
Establishment related expenses				
Depreciation of property and equipment	**41,233**	34,103	**35,617**	30,479
Amortisation of intangible assets	**25,463**	26,261	**25,230**	25,525
Information technology costs	**18,914**	14,602	**18,147**	14,096
Hire of equipment	**7,442**	6,478	**7,371**	6,287
Rental of premises	**35,198**	32,098	**30,124**	27,379
Property and equipment written off	**129**	218	**78**	216
General administrative expenses				
Intercompany expenses	**275,320**	248,494	**267,879**	239,300
Auditors' remuneration				
Audit fees				
KPMG Malaysia	**480**	455	**380**	375
Non-audit fees				
KPMG Malaysia	**378**	445	**288**	315

33 Income tax expense

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Malaysian income tax				
- Current year	**375,608**	297,037	**344,200**	279,700
- In respect of changes in tax treatment for collective allowance for impairment	**(127,158)**	-	**(112,100)**	-
- Prior year	**35,258**	76,626	**35,100**	71,172
Total current tax recognised in profit or loss	**283,708**	373,663	**267,200**	350,872
Deferred tax				
Origination and reversal of temporary differences				
- Current year	**(18,656)**	(21,639)	**(8,279)**	(20,644)
- In respect of changes in tax treatment for collective allowance for impairment	**127,158**	-	**112,100**	-
- Under/(over) provision in prior years	**(37,056)**	(70,246)	**(35,100)**	(67,315)
Total deferred tax recognised in profit or loss	**71,446**	(91,885)	**68,721**	(87,959)
Total income tax expense	**355,154**	281,778	**335,921**	**262,913**

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

	Group		Bank	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Profit before income tax	**1,390,784**	1,047,132	**1,292,987**	983,854
Income tax using Malaysian tax rates (25%)	**347,696**	261,784	**323,247**	245,964
Non-deductible expenses	**13,890**	14,355	**12,935**	13,375
Tax exempt income	**(4,634)**	(741)	**(261)**	(283)
(Over)/underprovision in respect of prior years	**(1,798)**	6,380	**-**	3,857
Income tax expense	**355,154**	281,778	**335,921**	262,913

*The corporate tax rate is 25%. Consequently, deferred tax assets and liabilities are measured using these tax rates.

34 Earnings per Share

The earnings per ordinary share have been calculated based on profit for the year and 229,000,000 (2010: 229,000,000) ordinary shares of RM0.50 each in issue during the year.

35 Significant Related Party Transactions and Balances

For the purpose of these financial statements, parties are considered to be related to the Group if : -

a. the Group or the Bank has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial or operational decisions, or vice versa, or

b. where the Group or the Bank and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

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

i the Bank's subsidiaries, holding company 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. Key management personnel include all members of the Board of Directors of HSBC Bank Malaysia Berhad and its subsidiaries.

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,other than key management personnel compensation, are as follows:

	Group			
	2011		2010	
	Parent companies	***Other related companies***	*Parent companies*	*Other related companies*
	RM'000	**RM'000**	RM'000	RM'000
Income				
Interest/profit on intercompany placements	**24,198**	**2,672**	47,300	825
Interest/profit on current accounts	**-**	**7**	-	20
Fees and commission	**5,540**	**55,418**	3,090	40,654
Other income	**4,094**	**13,391**	2,178	15,515
	33,832	**71,488**	52,568	57,014
Expenditure				
Interest/profit on intercompany deposits	**42,827**	**8,073**	20,859	11,684
Interest/profit on current accounts	**-**	**66**	8	21
Fees and commission	**513**	**6,035**	589	6,795
Operating expenses	**233,830**	**41,489**	207,934	40,560
	277,170	**55,663**	229,390	59,060
Amount due from				
Intercompany placements	**708,847**	**396,000**	561,207	451,539
Current account balances	**35,348**	**306,170**	226,007	200,569
Other assets	**339,470**	**39,013**	104,991	608,821
	1,083,665	**741,183**	892,205	1,260,929
Amount due to				
Intercompany deposits	**2,084,802**	**609,881**	2,888,228	86,745
Current account balances	**7,913**	**295,573**	18,797	153,909
Other liabilities	**195,542**	**165,265**	176,739	192,191
	2,288,257	**1,070,719**	3,083,764	432,845

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

	Bank			
	2011		2010	
	Parent companies	***Other related companies***	*Parent companies*	*Other related companies*
	RM'000	**RM'000**	RM'000	RM'000
Income				
Interest on intercompany placements	**24,198**	**54,960**	47,300	34,398
Interest on current accounts	**-**	**7**	-	20
Fees and commission	**4,833**	**49,887**	2,988	36,667
Other income	**4,094**	**110,718**	2,178	114,011
	33,125	**215,572**	52,466	185,096
Expenditure				
Interest on intercompany deposits	**42,827**	**3,726**	20,859	2,165
Interest on current accounts	**-**	**66**	8	21
Fees and commission	**511**	**6,006**	588	5,685
Operating expenses	**233,830**	**34,049**	207,899	31,401
	277,168	**43,847**	229,354	39,272
Amount due from				
Intercompany placements	**708,847**	**3,657,117**	561,207	1,944,626
Current account balances	**35,348**	**271,977**	225,777	198,861
Other assets	**178,557**	**41,976**	74,464	611,820
	922,752	**3,971,070**	861,448	2,755,307
Amount due to				
Intercompany deposits	**2,084,802**	**76,200**	2,888,228	86,000
Current account balances	**7,913**	**295,573**	18,797	153,909
Other liabilities	**195,542**	**159,438**	176,369	183,974
	2,288,257	**531,211**	3,083,394	423,883

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

Outstanding loan and advances balances due by the key management personnel of the Group and the Bank as at 31 December 2011 amount to RM103,683 (2010: RM110,463) and RM40,442 (2010: RM68,449) respectively.

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

(b) Key Management Personnel Compensation

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

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

2011

Group (RM'000)	Salaries and bonuses	Other remuneration and employee benefits	Benefits-in kind	Fees	Total
Executive Directors of the Bank					
Mukhtar Malik Hussain (CEO)	2,684	1,561	85	-	4,330
Baldev Singh s/o Gurdial Singh*	71	18	1	-	90
Jonathan William Addis**	2,028	754	890	-	3,672
Executive Director of subsidiary companies					
Mohamed Rafe Bin Mohamed Haneef	1,141	172	7	-	1,320
Non Executive Directors of the Bank and subsidiary companies					
Tan Sri Dato' Sulaiman bin Sujak	-	-	-	95	95
Dato' Henry Sackville Barlow	-	-	-	90	90
Datuk Ramli bin Ibrahim	-	-	-	97	97
Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem	-	-	-	76	76
Mr Ching Yew Chye	-	-	-	83	83
Mohamed Ross bin Mohd Din	-	-	-	82	82
Azlan bin Abdullah	-	-	-	80	80
Mohamed Ashraf Bin Mohamed Iqbal	-	-	-	77	77
Lee Choo Hock	-	-	-	88	88
Mohd Razlan Bin Mohamed^	-	-	-	52	52
	5,924	2,505	983	820	10,232

* apppointed 10 November 2011

** resigned 1 September 2011

^ resigned 6 August 2011

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

(b) Key Management Personnel Compensation (Cont'd)

2010

Group (RM'000)	**Salaries and bonuses**	**Other remuneration and employee benefits**	**Benefits-in kind**	**Fees**	**Total**
Executive Directors of the Bank					
Mukhtar Malik Hussain (CEO)	2,195	476	204	-	2,875
Jonathan William Addis	2,376	830	99	-	3,305
Executive Director of subsidiary companies					
Mohamed Rafe Bin Mohamed Haneef*	124	18	1	-	143
Musa Abdul Malek**	410	604	4	-	1,018
Non Executive Directors of the Bank and subsidiary companies					
Tan Sri Dato’ Sulaiman bin Sujak	-	-	-	81	81
Dato’ Henry Sackville Barlow	-	-	-	80	80
Datuk Ramli bin Ibrahim	-	-	-	81	81
Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem	-	-	-	71	71
Mr Ching Yew Chye	-	-	-	74	74
Mohamed Ross bin Mohd Din	-	-	-	76	76
Azlan bin Abdullah	-	-	-	76	76
Mohamed Ashraf Bin Mohamed Iqbal	-	-	-	71	71
Lee Choo Hock	-	-	-	80	80
Mohd Razlan Bin Mohamed	-	-	-	81	81
Datuk Dr Zainal Aznam bin Mohd Yusof^	-	-	-	18	18
Dato’ Zuraidah binti Atan^	-	-	-	20	20
	5,105	1,928	308	809	8,150

* appointed 22 November 2010

** resigned 1 August 2010

^ retired 5 March 2010

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

(b) Key Management Personnel Compensation (Cont'd)

2011

Bank (RM'000)	**Salaries and bonuses**	**Other remuneration and employee benefits**	**Benefits-in kind**	**Fees**	**Total**
Executive Directors of the Bank					
Mukhtar Malik Hussain (CEO)	**2,684**	**1,561**	**85**	**-**	**4,330**
Baldev Singh s/o Gurdial Singh*	**71**	**18**	**1**	**-**	**90**
Jonathan William Addis**	**2,028**	**754**	**890**	**-**	**3,672**
Non Executive Directors of the Bank					
Tan Sri Dato' Sulaiman bin Sujak	**-**	**-**	**-**	**95**	**95**
Dato' Henry Sackville Barlow	**-**	**-**	**-**	**90**	**90**
Datuk Ramli bin Ibrahim	**-**	**-**	**-**	**97**	**97**
Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem	**-**	**-**	**-**	**76**	**76**
Mr Ching Yew Chye	**-**	**-**	**-**	**83**	**83**
	4,783	**2,333**	**976**	**441**	**8,533**

* apppointed 10 November 2011

** resigned 1 September 2011

2010

Bank (RM'000)	**Salaries and bonuses**	**Other remuneration and employee benefits**	**Benefits-in kind**	**Fees**	**Total**
Executive Directors of the Bank					
Mukhtar Malik Hussain (CEO)	2,195	476	204	-	2,875
Jonathan William Addis	2,376	830	99	-	3,305
Non Executive Directors of the Bank					
Tan Sri Dato' Sulaiman bin Sujak	-	-	-	81	81
Dato' Henry Sackville Barlow	-	-	-	80	80
Datuk Ramli bin Ibrahim	-	-	-	81	81
Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem	-	-	-	71	71
Mr Ching Yew Chye	-	-	-	74	74
Datuk Dr Zainal Aznam bin Mohd Yusof^	-	-	-	18	18
Dato' Zuraidah binti Atan^	-	-	-	20	20
	4,571	1,306	303	425	6,605

^ retired 5 March 2010

36 Credit exposure to connected parties

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

	Group		*Bank*	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
		Restated		Restated
Aggregate value of outstanding credit exposures to connected parties	**4,021,326**	1,275,736	**4,135,280**	2,384,405
As a percentage of total credit exposures	**7.7%**	3.0%	**9.6%**	6.4%
Aggregate value of total outstanding credit exposures to connected parties which is impaired or in default	**-**	-	**-**	-
As a percentage of total credit exposures	**-**	-	**-**	-

37 Capital Adequacy

	Group	
	31 Dec 2011	31 Dec 2010
	RM'000	RM'000
Tier 1 capital		
Paid-up ordinary share capital	**114,500**	114,500
Share premium	**741,375**	741,375
Capital redemption reserve	**190,000**	190,000
Retained profits (including proposed dividend/dividend paid)	**3,479,045**	2,885,920
Statutory reserve	**164,500**	164,500
	4,689,420	4,096,295
Less: Deferred tax adjustments	**(117,117)**	(189,082)
Total Tier 1 capital	**4,572,303**	3,907,213
Tier 2 capital		
Subordinated bonds	**1,015,200**	1,003,039
Revaluation reserves	**85,441**	80,726
Collective impairment allowance	**596,680**	508,539
Total Tier 2 capital	**1,697,321**	1,592,304
Total capital	**6,269,624**	5,499,517
Capital base	**6,269,624**	5,499,517

Core capital ratio	**9.9%**		10.2%	
Risk-weighted capital ratio	**13.6%**		14.4%	
Core capital ratio (net of proposed dividend*/dividend paid**)	**9.3%**	*	9.6%	**
Risk-weighted capital ratio (net of proposed dividend*/dividend paid**)	**13.0%**	*	13.7%	**

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

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

	Group			
	31 Dec 2011		31 Dec 2010	
	Principal	**Risk-weighted**	Principal	Risk-weighted
	RM'000	**RM'000**	RM'000	RM'000
Total RWA for credit risk	**88,851,581**	**38,728,263**	69,088,318	31,677,595
Total RWA for market risk	**-**	**2,622,157**	-	2,069,218
Total RWA for operational risk	**-**	**4,680,548**	-	4,458,252
	88,851,581	**46,030,968**	69,088,318	38,205,065

37 Capital Adequacy (Cont'd)

	Bank	
	31 Dec 2011	31 Dec 2010
	RM'000	RM'000
Tier 1 capital		
Paid-up ordinary share capital	**114,500**	114,500
Share premium	**741,375**	741,375
Capital redemption reserve	**190,000**	190,000
Retained profits (including proposed dividend/dividend paid)	**3,325,829**	2,811,268
Statutory reserve	**114,500**	114,500
	4,486,204	3,971,643
Less: Deferred tax adjustments	**(117,795)**	(187,035)
Total Tier 1 capital	**4,368,409**	3,784,608
Tier 2 capital		
Subordinated bonds	**1,015,200**	1,003,039
Revaluation reserves	**85,441**	80,726
Collective impairment allowance	**481,380**	438,997
Tier 2 capital	**1,582,021**	1,522,762
Less: Investment in subsidiaries	**(660,021)**	(660,021)
Total Tier 2 capital	**922,000**	862,741
Capital base	**5,290,409**	4,647,349

Core capital ratio	**11.1%**	11.0%
Risk-weighted capital ratio	**13.4%**	13.6%
Core capital ratio (net of proposed dividend*/dividend paid**)	**10.3%** *	10.3% **
Risk-weighted capital ratio (net of proposed dividend*/dividend paid**)	**12.7%** *	12.8% **

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

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

	Bank			
	31 Dec 2011		31 Dec 2010	
	Principal	**Risk-weighted**	Principal	Risk-weighted
	RM'000	**RM'000**	RM'000	RM'000
Total RWA for credit risk	**80,688,742**	**32,514,625**	63,519,386	28,018,139
Total RWA for market risk	**-**	**2,521,215**	-	2,039,942
Total RWA for operational risk	**-**	**4,305,377**	-	4,206,057
	80,688,742	**39,341,217**	63,519,386	34,264,138

37 Capital Adequacy (Cont'd)

31 Dec 2011 *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)**
Credit Risk						
On-Balance Sheet Exposures						
Sovereigns/Central Banks		**23,166,889**	**23,166,889**	**-**	**-**	**-**
Banks, Development Financial Institutions & MDBs		**11,223,050**	**11,223,050**	**2,258,367**	**2,258,367**	**180,669**
Corporates		**14,874,493**	**14,337,162**	**13,399,281**	**13,399,281**	**1,071,942**
Regulatory Retail		**7,586,318**	**7,420,304**	**5,567,574**	**5,567,574**	**445,406**
Residential Mortgages		**18,127,381**	**18,102,024**	**7,534,401**	**7,534,401**	**602,752**
Higher Risk Assets		**1,508**	**1,508**	**2,261**	**2,261**	**181**
Other Assets		**1,070,708**	**1,070,708**	**772,032**	**772,032**	**61,763**
Equity Exposure		**16,908**	**16,908**	**16,908**	**16,908**	**1,353**
Defaulted Exposures		**532,513**	**526,432**	**626,104**	**626,104**	**50,088**
Total for On-Balance Sheet Exposures		**76,599,768**	**75,864,985**	**30,176,928**	**30,176,928**	**2,414,154**
Off-Balance Sheet Exposures						
OTC Derivatives		**3,676,729**	**3,676,729**	**1,910,874**	**1,910,874**	**152,870**
Off balance sheet exposures other than OTC derivatives or credit derivatives		**8,516,675**	**8,328,905**	**6,556,922**	**6,556,922**	**524,554**
Defaulted Exposures		**58,409**	**56,800**	**83,539**	**83,539**	**6,683**
Total for Off-Balance Sheet Exposures		**12,251,813**	**12,062,434**	**8,551,335**	**8,551,335**	**684,107**
Total On and Off-Balance Sheet Exposures		**88,851,581**	**87,927,419**	**38,728,263**	**38,728,263**	**3,098,261**
Large Exposures Risk Requirement		**-**	**-**	**-**	**-**	**-**
Market Risk	**Long Position**	**Short Position**				
Interest Rate Risk	**75,526,424**	**68,838,723**	**6,687,700**	**2,315,183**	**2,315,183**	**185,215**
Foreign Currency Risk	**39,016**	**47,305**	**42,150**	**47,324**	**47,324**	**3,786**
Option Risk	**-**	**-**	**-**	**259,650**	**259,650**	**20,772**
	75,565,440	**68,886,028**	**6,729,850**	**2,622,157**	**2,622,157**	**209,773**
Operational Risk	**-**	**-**	**-**	**4,680,548**	**4,680,548**	**374,444**
Total RWA and Capital Requirement	**-**	**-**	**-**	**46,030,968**	**46,030,968**	**3,682,478**

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

Note:

PSIA - Profit Sharing Investment Account
MDBs - Multilateral Development Banks
OTC - Over the counter

37 Capital Adequacy (Cont'd)

31 Dec 2011 — *Bank*

Exposure Class		Gross Exposures (RM'000)	Net Exposures (RM'000)	Risk Weighted Assets (RWA) (RM'000)	Total RWA after PSIA (RM'000)	Capital Requirement (RM'000)
Credit Risk						
On-Balance Sheet Exposures						
Sovereigns/Central Banks		**21,110,116**	**21,110,116**	**-**	**-**	**-**
Banks, Development Financial Institutions & MDBs		**13,371,543**	**13,371,543**	**2,789,124**	**2,789,124**	**223,130**
Corporates		**11,388,203**	**10,901,834**	**10,001,239**	**10,001,239**	**800,099**
Regulatory Retail		**5,194,299**	**5,051,641**	**3,781,413**	**3,781,413**	**302,513**
Residential Mortgages		**16,758,805**	**16,734,430**	**6,810,431**	**6,810,431**	**544,834**
Higher Risk Assets		**1,508**	**1,508**	**2,261**	**2,261**	**181**
Other Assets		**1,487,632**	**1,487,632**	**1,262,065**	**1,262,065**	**100,965**
Equity Exposure		**16,908**	**16,908**	**16,908**	**16,908**	**1,353**
Defaulted Exposures		**470,111**	**465,379**	**549,561**	**549,561**	**43,965**
Total for On-Balance Sheet Exposures		**69,799,125**	**69,140,991**	**25,213,002**	**25,213,002**	**2,017,040**
Off-Balance Sheet Exposures						
OTC Derivatives		**3,707,414**	**3,707,414**	**1,925,588**	**1,925,588**	**154,047**
Off balance sheet exposures other than OTC derivatives or credit derivatives		**7,124,238**	**6,949,847**	**5,293,164**	**5,293,164**	**423,453**
Defaulted Exposures		**57,965**	**56,355**	**82,871**	**82,871**	**6,630**
Total for Off-Balance Sheet Exposures		**10,889,617**	**10,713,616**	**7,301,623**	**7,301,623**	**584,130**
Total On and Off-Balance Sheet Exposures		**80,688,742**	**79,854,607**	**32,514,625**	**32,514,625**	**2,601,170**
Large Exposures Risk Requirement		**-**	**-**	**-**	**-**	**-**
Market Risk	**Long Position**	**Short Position**				
Interest Rate Risk	**73,861,936**	**67,409,211**	**6,452,724**	**2,221,796**	**2,221,796**	**177,743**
Foreign Currency Risk	**36,635**	**39,769**	**39,769**	**39,769**	**39,769**	**3,182**
Option Risk	**-**	**-**	**-**	**259,650**	**259,650**	**20,772**
	73,898,571	**67,448,980**	**6,492,493**	**2,521,215**	**2,521,215**	**201,697**
Operational Risk	**-**	**-**	**-**	**4,305,377**	**4,305,377**	**344,430**
Total RWA and Capital Requirement	**-**	**-**	**-**	**39,341,217**	**39,341,217**	**3,147,297**

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

Note:
PSIA - Profit Sharing Investment Account
MDBs - Multilateral Development Banks
OTC - Over the counter

37 Capital Adequacy (Cont'd)

31 Dec 2010 — *Group*

Exposure Class		Gross Exposures (RM'000)	Net Exposures (RM'000)	Risk Weighted Assets (RWA) (RM'000)	Total RWA after PSIA (RM'000)	Capital Requirement (RM'000)
Credit Risk						
On-Balance Sheet Exposures						
Sovereigns/Central Banks		**17,746,419**	**17,746,419**	**-**	**-**	**-**
Banks, Development Financial Institutions & MDBs		**6,656,772**	**6,656,772**	**1,374,660**	**1,374,660**	**109,973**
Corporates		**13,387,801**	**12,777,471**	**12,073,825**	**12,073,825**	**965,906**
Regulatory Retail		**6,845,700**	**6,682,619**	**4,983,714**	**4,983,714**	**398,697**
Residential Mortgages		**15,588,458**	**15,563,175**	**6,631,049**	**6,631,049**	**530,484**
Higher Risk Assets		**1,417**	**1,417**	**2,125**	**2,125**	**170**
Other Assets		**911,335**	**911,335**	**701,615**	**701,615**	**56,129**
Equity Exposure		**27,604**	**27,604**	**27,604**	**27,604**	**2,208**
Defaulted Exposures		**459,704**	**452,405**	**541,028**	**541,028**	**43,282**
Total for On-Balance Sheet Exposures		**61,625,210**	**60,819,217**	**26,335,620**	**26,335,620**	**2,106,849**
Off-Balance Sheet Exposures						
OTC Derivatives		**2,865,041**	**2,865,041**	**1,480,217**	**1,480,217**	**118,417**
Off balance sheet exposures other than OTC derivatives or credit derivatives		**4,507,094**	**4,392,275**	**3,736,124**	**3,736,124**	**298,890**
Defaulted Exposures		**90,973**	**84,099**	**125,634**	**125,634**	**10,051**
Total for Off-Balance Sheet Exposures		**7,463,108**	**7,341,415**	**5,341,975**	**5,341,975**	**427,358**
Total On and Off-Balance Sheet Exposures		**69,088,318**	**68,160,632**	**31,677,595**	**31,677,595**	**2,534,207**
Large Exposures Risk Requirement		**-**	**-**	**-**	**-**	**-**
Market Risk	**Long Position**	**Short Position**				
Interest Rate Risk	**52,380,571**	**47,672,088**	**4,708,483**	**1,733,079**	**1,733,079**	**138,646**
Foreign Currency Risk	**97,001**	**301,983**	**302,376**	**302,376**	**302,376**	**24,190**
Option Risk	**-**	**-**	**-**	**33,763**	**33,763**	**2,701**
	52,477,572	**47,974,071**	**5,010,859**	**2,069,218**	**2,069,218**	**165,537**
Operational Risk	**-**	**-**	**-**	**4,458,252**	**4,458,252**	**356,660**
Total RWA and Capital Requirement	**-**	**-**	**-**	**38,205,065**	**38,205,065**	**3,056,404**

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

Note:
PSIA - Profit Sharing Investment Account
MDBs - Multilateral Development Banks
OTC - Over the counter

37 Capital Adequacy (Cont'd)

31 Dec 2010 *Bank*

Exposure Class		Gross Exposures (RM'000)	Net Exposures (RM'000)	Risk Weighted Assets (RWA) (RM'000)	Total RWA after PSIA (RM'000)	Capital Requirement (RM'000)
Credit Risk						
On-Balance Sheet Exposures						
Sovereigns/Central Banks		**15,959,872**	**15,959,872**	**-**	**-**	**-**
Banks, Development Financial Institutions & MDBs		**7,686,319**	**7,686,319**	**1,743,182**	**1,743,182**	**139,455**
Corporates		**10,960,822**	**10,405,592**	**9,713,028**	**9,713,028**	**777,042**
Regulatory Retail		**5,136,868**	**4,990,892**	**3,715,971**	**3,715,971**	**297,278**
Residential Mortgages		**15,088,642**	**15,063,483**	**6,364,538**	**6,364,538**	**509,163**
Higher Risk Assets		**1,417**	**1,417**	**2,125**	**2,125**	**170**
Other Assets		**1,221,020**	**1,221,020**	**1,011,300**	**1,011,300**	**80,904**
Equity Exposure		**27,604**	**27,604**	**27,604**	**27,604**	**2,208**
Defaulted Exposures		**402,838**	**396,258**	**461,246**	**461,246**	**36,900**
Total for On-Balance Sheet Exposures		**56,485,402**	**55,752,457**	**23,038,994**	**23,038,994**	**1,843,120**
Off-Balance Sheet Exposures						
OTC Derivatives		**2,844,574**	**2,844,574**	**1,476,124**	**1,476,124**	**118,090**
Off balance sheet exposures other than OTC derivatives or credit derivatives		**4,098,706**	**3,995,812**	**3,377,787**	**3,377,787**	**270,223**
Defaulted Exposures		**90,704**	**83,830**	**125,234**	**125,234**	**10,019**
Total for Off-Balance Sheet Exposures		**7,033,984**	**6,924,216**	**4,979,145**	**4,979,145**	**398,332**
Total On and Off-Balance Sheet Exposures		**63,519,386**	**62,676,673**	**28,018,139**	**28,018,139**	**2,241,452**
Large Exposures Risk Requirement		**-**	**-**	**-**	**-**	**-**
Market Risk	**Long Position**	**Short Position**				
Interest Rate Risk	**52,205,910**	**47,647,014**	**4,558,896**	**1,706,496**	**1,706,496**	**136,520**
Foreign Currency Risk	**94,308**	**299,683**	**299,683**	**299,683**	**299,683**	**23,975**
Option Risk	**-**	**-**	**-**	**33,763**	**33,763**	**2,701**
	52,300,218	**47,946,697**	**4,858,579**	**2,039,942**	**2,039,942**	**163,196**
Operational Risk	**-**	**-**	**-**	**4,206,057**	**4,206,057**	**336,485**
Total RWA and Capital Requirement	**-**	**-**	**-**	**34,264,138**	**34,264,138**	**2,741,133**

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

Note:
PSIA - Profit Sharing Investment Account
MDBs - Multilateral Development Banks
OTC - Over the counter

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127776-V

37 Capital Adequacy (Cont'd)

31 Dec 2011 *Group*

Risk Weights	Exposures after Netting and Credit Risk Mitigation								Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporates	Regulatory Retail	Residental Mortgages	Higher Risk Assets	Other Assets	Equity		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	23,173,992	-	3,062	17,101	-	-	298,676	-	23,492,831	-
20%	-	13,554,193	1,351,050	49,353	-	-	-	-	14,954,596	2,990,919
35%	-	-	-	-	13,922,407	-	-	-	13,922,407	4,872,843
50%	-	1,395,364	553,009	8,018	1,892,926	-	-	-	3,849,317	1,924,658
75%	-	-	1,785	9,259,224	2,337,031	-	-	-	11,598,040	8,698,530
100%	-	318	18,610,915	239,923	207,965	-	772,032	16,908	19,848,061	19,848,062
150%	-	3,201	86,053	171,060	301	1,552	-	-	262,167	393,251
Total Risk Weight	-	-	-	-	-	-	-	-	87,927,419	38,728,263
Average Risk Weight	-	-	-	-	-	-	-	-	4,884,857	2,151,570
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-

31 Dec 2011 *Bank*

Risk Weights	Exposures after Netting and Credit Risk Mitigation								Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporates	Regulatory Retail	Residental Mortgages	Higher Risk Assets	Other Assets	Equity		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	21,117,220	-	1,561	16,320	-	-	225,568	-	21,360,669	-
20%	-	15,343,155	1,305,358	48,659	-	-	-	-	16,697,172	3,339,434
35%	-	-	-	-	13,369,792	-	-	-	13,369,792	4,679,427
50%	-	1,789,855	445,542	5,944	1,570,210	-	-	-	3,811,551	1,905,775
75%	-	-	-	6,717,719	1,844,530	-	-	-	8,562,249	6,421,688
100%	-	318	14,166,005	189,016	188,609	-	1,262,064	16,908	15,822,920	15,822,920
150%	-	3,201	85,887	139,313	301	1,552	-	-	230,254	345,381
Total Risk Weight	-	-	-	-	-	-	-	-	79,854,607	32,514,625
Average Risk Weight	-	-	-	-	-	-	-	-	4,436,367	1,806,368
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-

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

Note:
MDBs - Multilateral Development Banks
DFIs - Development Financial Institutions

37 Capital Adequacy (Cont'd)

31 Dec 2010 *Group*

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

31 Dec 2010 *Bank*

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

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

Note:
MDBs - Multilateral Development Banks
DFIs - Development Financial Institutions

38 Commitments and Contingencies

31 Dec 2011	Group			
	Credit Principal amount RM'000	Positive fair value of derivative contracts^ RM'000	Credit equivalent amount* RM'000	Risk weighted amount* RM'000
Direct credit substitutes	**1,637,618**	**-**	**1,637,618**	**1,272,927**
Transaction-related contingent items	**4,485,107**	**-**	**2,242,553**	**1,433,348**
Short-term self-liquidating trade-related contingencies	**436,293**	**-**	**87,259**	**66,825**
Irrevocable commitments to extend credit:				
- Maturity not exceeding one year	**12,562,422**	**-**	**2,512,484**	**2,209,152**
- Maturity exceeding one year	**1,628,814**	**-**	**325,763**	**283,054**
Unutilised credit card lines	**7,885,027**	**-**	**1,577,005**	**1,182,754**
Foreign exchange related contracts				
- Less than one year	**38,470,026**	**411,487**	**932,034**	**575,810**
- Over one year to less than five years	**6,664,674**	**233,650**	**699,401**	**410,147**
- Over five years	**3,163,667**	**185,486**	**517,464**	**417,495**
Interest/profit rate related contracts:				
- Less than one year	**8,044,548**	**10,993**	**24,058**	**10,127**
- Over one year to less than five years	**28,908,974**	**362,574**	**974,957**	**363,773**
- Over five years	**2,675,692**	**175,826**	**275,088**	**82,775**
Gold and other precious metals contracts				
- Less than one year	**164,660**	**5,097**	**9,168**	**1,834**
- Over one year to less than five years	**25,086**	**965**	**2,239**	**448**
Other commodity contracts:				
- Over one year to less than five years	**29,711**	**1**	**3,566**	**713**
Equity related contracts				
- Less than one year	**144,553**	**8,561**	**10,621**	**2,124**
- Over one year to less than five years	**1,595,881**	**46,510**	**165,381**	**33,077**
- Over five years	**453,806**	**17,372**	**62,753**	**12,551**
Sell buy back agreement	**192,401**	**-**	**192,401**	**192,401**
	119,168,960	**1,458,522**	**12,251,813**	**8,551,335**
		Note 12		

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

* The credit equivalent and risk weighted amounts are computed using credit conversion factors and risk weighting rules as per Bank Negara Malaysia guidelines. The credit conversion factors and risk weighting rules were based on Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF" including a refined temporary (until 31 December 2011) measure relating to credit conversion factor for undrawn facilities.

38 Commitments and Contingencies (Cont'd)

31 Dec 2011	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	**1,175,959**	**-**	**1,175,959**	**868,639**
Transaction-related contingent items	**3,954,047**	**-**	**1,977,023**	**1,175,656**
Short-term self-liquidating trade-related contingencies	**403,366**	**-**	**80,673**	**62,080**
Irrevocable commitments to extend credit:				
- Maturity not exceeding one year	**11,248,102**	**-**	**2,249,620**	**1,962,967**
- Maturity exceeding one year	**1,495,379**	**-**	**299,076**	**256,804**
Unutilised credit card lines	**6,999,254**	**-**	**1,399,851**	**1,049,888**
Foreign exchange related contracts				
- Less than one year	**38,481,549**	**411,987**	**932,708**	**574,685**
- Over one year to less than five years	**6,664,674**	**233,650**	**699,401**	**410,148**
- Over five years	**3,163,667**	**185,486**	**517,464**	**417,495**
Interest rate related contracts:				
- Less than one year	**8,044,548**	**10,993**	**24,058**	**10,126**
- Over one year to less than five years	**30,212,475**	**351,538**	**1,024,026**	**383,424**
- Over five years	**2,675,692**	**175,825**	**275,088**	**82,775**
Gold and other precious metals contracts				
- Less than one year	**164,660**	**5,097**	**9,168**	**1,834**
- Over one year to less than five years	**25,086**	**965**	**2,239**	**448**
Other commodity contracts:				
- Over one year to less than five years	**29,711**	**1**	**3,566**	**713**
Equity related contracts				
- Less than one year	**144,553**	**8,561**	**10,621**	**2,124**
- Over one year to less than five years	**1,405,512**	**41,318**	**146,323**	**29,264**
- Over five years	**453,805**	**17,373**	**62,753**	**12,553**
	116,742,039	**1,442,794**	**10,889,617**	**7,301,623**
		Note 12		

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

* The credit equivalent and risk weighted amounts are computed using credit conversion factors and risk weighting rules as per Bank Negara Malaysia guidelines. The credit conversion factors and risk weighting rules were based on Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF" including a refined temporary (until 31 December 2011) measure relating to credit conversion factor for undrawn facilities.

38 Commitments and Contingencies (Cont'd)

31 Dec 2010	Group			
	Credit Principal amount RM'000	Positive fair value of derivative contracts^ RM'000	Credit equivalent amount* RM'000	Risk weighted amount* RM'000
Direct credit substitutes	1,373,274	-	1,373,274	1,243,087
Transaction-related contingent items	2,198,080	-	1,099,040	910,741
Short-term self-liquidating trade-related contingencies	409,577	-	81,915	65,187
Irrevocable commitments to extend credit:				
- Maturity not exceeding one year	9,971,490	-	-	-
- Maturity exceeding one year	970,034	-	485,017	436,744
Unutilised credit card lines	7,056,438	-	1,411,288	1,058,466
Foreign exchange related contracts				
- Less than one year	21,304,763	249,369	420,594	248,292
- Over one year to less than five years	7,035,957	364,513	877,709	522,640
- Over five years	2,021,628	134,092	362,855	321,171
Interest/profit rate related contracts:				
- Less than one year	6,342,043	17,570	26,361	10,043
- Over one year to less than five years	25,048,291	226,900	770,220	281,764
- Over five years	2,049,452	46,107	191,620	53,171
Gold and other precious metals contracts				
- Less than one year	49,303	4,707	5,238	1,047
- Over one year to less than five years	76,330	4,148	7,968	1,594
Other commodity contracts:				
- Less than one year	1,761	93	269	54
- Over one year to less than five years	30,523	275	3,937	787
Equity related contracts				
- Less than one year	128,418	10,595	16,925	3,384
- Over one year to less than five years	1,143,390	71,058	162,555	32,512
- Over five years	145,076	4,282	18,790	3,758
Sell buy back agreement	147,534	-	147,533	147,533
	87,503,362	1,133,709	7,463,108	5,341,975
		Note 12		

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

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

38 Commitments and Contingencies (Cont'd)

31 Dec 2010	Bank			
	Credit Principal amount RM'000	Positive fair value of derivative contracts^ RM'000	Credit equivalent amount* RM'000	Risk weighted amount* RM'000
Direct credit substitutes	1,283,050	-	1,283,050	1,162,259
Transaction-related contingent items	2,175,732	-	1,087,866	900,940
Short-term self-liquidating trade-related contingencies	395,150	-	79,030	63,781
Irrevocable commitments to extend credit:				
- Maturity not exceeding one year	9,204,534	-	-	-
- Maturity exceeding one year	888,816	-	444,408	404,749
Unutilised credit card lines	6,475,280	-	1,295,056	971,292
Foreign exchange related contracts				
- Less than one year	21,304,763	249,369	420,594	248,292
- Over one year to less than five years	7,035,957	364,513	877,709	522,640
- Over five years	2,021,628	134,092	362,855	321,171
Interest rate related contracts:				
- Less than one year	6,342,043	17,570	26,361	10,043
- Over one year to less than five years	25,048,291	226,900	770,220	281,764
- Over five years	2,049,452	46,107	191,620	53,171
Gold and other precious metals contracts				
- Less than one year	49,303	4,707	5,238	1,047
- Over one year to less than five years	76,330	4,148	7,968	1,594
Other commodity contracts:				
- Less than one year	1,761	93	269	54
- Over one year to less than five years	30,523	275	3,937	787
Equity related contracts				
- Less than one year	115,241	5,953	11,486	2,297
- Over one year to less than five years	1,037,282	64,545	147,527	29,506
- Over five years	145,076	4,282	18,790	3,758
	85,680,212	1,122,554	7,033,984	4,979,145
		Note 12		

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

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

39 Interest/ Profit Rate Risk

The Group and the Bank are exposed to various risks associated with the effects of fluctuation in the prevailing level of market interest/profit rates on its financial position and cash flows. The following tables summarise the Group and the Bank's exposure to interest/profit rate risk. The assets and liabilities at carrying amount are allocated to time bands by reference to the earlier of the next contractual repricing dates and maturity dates.

	Non-trading book								
Group **31 Dec 2011**	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-interest/ profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective interest/ profit rate %**
ASSETS									
Cash and short term funds	16,739,690	-	-	-	-	4,863,537	-	21,603,227	2.86
Securities purchased under resale agreements	2,056,083	1,626,886	-	-	-	-	-	3,682,969	2.96
Deposits and placements with banks and other financial institutions	-	255,778	-	396,000	-	-	-	651,778	2.45
Financial assets held-for-trading	-	-	-	-	-	-	6,217,237	6,217,237	3.04
Financial investments available-for-sale	169,892	2,131,132	208,586	2,135,230	212,070	16,908	-	4,873,818	3.31
Loans, advances and financing									
- performing	31,948,141	2,584,644	833,338	1,825,236	487,708	1,091,093	-	38,770,160	5.41
- impaired *	-	-	-	-	-	386,772	-	386,772	-
Others	-	-	-	-	-	1,959,886	1,579,097	3,538,983	-
Total Assets	50,913,806	6,598,440	1,041,924	4,356,466	699,778	8,318,196	7,796,334	79,724,944	
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers	28,697,399	5,936,479	6,762,496	4,036,295	763,979	11,412,152	915,046	58,523,846	2.21
Deposits and placements from banks and other financial institutions	4,009,992	158,290	151,903	6,415	5,108	5,577,254	-	9,908,962	2.14
Bills and acceptances payable	2,933	5,739	-	-	-	512,665	-	521,337	2.08
Subordinated bonds	-	-	-	-	1,015,200	-	-	1,015,200	4.70
Others	-	-	-	-	-	3,389,480	1,426,523	4,816,003	-
Total Liabilities	32,710,324	6,100,508	6,914,399	4,042,710	1,784,287	20,891,551	2,341,569	74,785,348	
Shareholders' funds	-	-	-	-	-	4,939,596	-	4,939,596	
Total Liabilities and Shareholders' funds	32,710,324	6,100,508	6,914,399	4,042,710	1,784,287	25,831,147	2,341,569	79,724,944	
On-balance sheet interest/profit sensitivity gap	18,203,482	497,932	(5,872,475)	313,756	(1,084,509)	(17,512,951)	5,454,765	-	
Off-balance sheet interest/profit sensitivity gap									
Interest/profit rate contracts									
- futures	-	(10,000)	30,000	(20,000)	-	-	-	-	
- options	(250,000)	100,000	(180,000)	330,000	-	-	-	-	
- swaps	775,432	99,832	1,634,761	160,696	405,963	-	-	3,076,684	
Total interest/profit sensitivity gap	18,728,914	687,764	(4,387,714)	784,452	(678,546)	(17,512,951)	5,454,765	3,076,684	

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

39 Interest/ Profit Rate Risk (Cont'd)

Group 31 Dec 2010	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest/ profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest/ profit rate %
ASSETS									
Cash and short term funds	9,889,885	-	-	-	-	1,925,719	-	11,815,604	2.62
Securities purchased under resale agreements	3,968,170	2,499,693	-	-	-	-	-	6,467,863	2.77
Deposits and placements with banks and other financial institutions	-	283,436	47,545	-	-	-	-	330,981	2.79
Financial assets held-for-trading	-	-	-	-	-	-	4,895,060	4,895,060	3.05
Financial investments available-for-sale	309,692	1,242,646	521,395	1,094,430	208,138	23,789	-	3,400,090	3.22
Loans, advances and financing									
- performing	26,776,972	2,836,658	967,064	1,679,942	421,782	1,080,503	-	33,762,921	5.44
- impaired *	-	-	-	-	-	313,123	-	313,123	-
Others	-	-	-	-	-	915,999	1,876,827	2,792,826	-
Total Assets	40,944,719	6,862,433	1,536,004	2,774,372	629,920	4,259,133	6,771,887	63,778,468	
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers	23,162,190	5,691,096	6,629,872	2,311,926	578,395	9,965,945	-	48,339,424	2.00
Deposits and placements from banks and other financial institutions	4,442,174	533,787	100,893	8,170	7,737	1,760,287	-	6,853,048	2.18
Bills and acceptances payable	14,608	1,654	-	-	-	412,967	-	429,229	2.13
Recourse obligation on loans sold to Cagamas Berhad	-	134,991	240,000	-	-	-	-	374,991	4.94
Subordinated bonds	-	-	-	-	1,003,039	-	-	1,003,039	4.70
Others	-	-	-	-	-	1,168,507	1,289,144	2,457,651	-
Total Liabilities	27,618,972	6,361,528	6,970,765	2,320,096	1,589,171	13,307,706	1,289,144	59,457,382	
Shareholders' funds	-	-	-	-	-	4,321,086	-	4,321,086	
Total Liabilities and Shareholders' funds	27,618,972	6,361,528	6,970,765	2,320,096	1,589,171	17,628,792	1,289,144	63,778,468	
On-balance sheet interest/profit sensitivity gap	13,325,747	500,905	(5,434,761)	454,276	(959,251)	(13,369,659)	5,482,743	-	
Off-balance sheet interest/profit sensitivity gap									
Interest/profit rate contracts									
- futures	-	60,000	(30,000)	(30,000)	-	-	-	-	
- options	(208,308)	(160,000)	160,000	208,308	-	-	-	-	
- swaps	1,111,522	(2,548,963)	1,013,912	(9,613)	530,805	-	-	97,663	
Total interest/profit sensitivity gap	14,228,961	(2,148,058)	(4,290,849)	622,971	(428,446)	(13,369,659)	5,482,743	97,663	

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

39 Interest/ Profit Rate Risk (Cont'd)

Bank 31 Dec 2011	**Non-trading book Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-interest sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective interest rate %**
ASSETS									
Cash and short term funds	**15,529,424**	**-**	**-**	**-**	**-**	**4,762,848**	**-**	**20,292,272**	**2.85**
Securities purchased under resale agreements	**2,056,083**	**1,626,886**	**-**	**-**	**-**	**-**	**-**	**3,682,969**	**2.96**
Deposits and placements with banks and other financial institutions	**-**	**572,578**	**2,520,792**	**593,688**	**-**	**-**	**-**	**3,687,058**	**2.45**
Financial assets held-for-trading	**-**	**-**	**-**	**-**	**-**	**-**	**6,000,521**	**6,000,521**	**3.03**
Financial investments available-for-sale	**169,892**	**2,106,123**	**27,579**	**1,919,160**	**212,070**	**16,908**	**-**	**4,451,732**	**3.33**
Loans, advances and financing									
- performing	**27,083,937**	**2,234,633**	**600,544**	**148,054**	**279,340**	**933,725**	**-**	**31,280,233**	**4.98**
- impaired*	**-**	**-**	**-**	**-**	**-**	**330,353**	**-**	**330,353**	**-**
Others	**-**	**-**	**-**	**-**	**-**	**2,194,339**	**1,713,807**	**3,908,146**	**-**
Total Assets	**44,839,336**	**6,540,220**	**3,148,915**	**2,660,902**	**491,410**	**8,238,173**	**7,714,328**	**73,633,284**	
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers	**25,649,269**	**4,904,025**	**6,016,806**	**3,844,952**	**763,979**	**10,953,538**	**915,046**	**53,047,615**	**2.19**
Deposits and placements from banks and other financial institutions	**3,534,549**	**158,290**	**151,903**	**6,414**	**5,108**	**5,573,290**	**-**	**9,429,554**	**2.19**
Bills and acceptances payable	**2,933**	**5,739**	**-**	**-**	**-**	**505,065**	**-**	**513,737**	**2.08**
Subordinated bonds	**-**	**-**	**-**	**-**	**1,015,200**	**-**	**-**	**1,015,200**	**4.70**
Others	**-**	**-**	**-**	**-**	**-**	**3,307,224**	**1,584,418**	**4,891,642**	**-**
Total Liabilities	**29,186,751**	**5,068,054**	**6,168,709**	**3,851,366**	**1,784,287**	**20,339,117**	**2,499,464**	**68,897,748**	
Shareholders' funds	**-**	**-**	**-**	**-**	**-**	**4,735,536**	**-**	**4,735,536**	
Total Liabilities and Shareholders' funds	**29,186,751**	**5,068,054**	**6,168,709**	**3,851,366**	**1,784,287**	**25,074,653**	**2,499,464**	**73,633,284**	
On-balance sheet interest sensitivity gap	**15,652,585**	**1,472,166**	**(3,019,794)**	**(1,190,464)**	**(1,292,877)**	**(16,836,480)**	**5,214,864**	**-**	
Off-balance sheet interest sensitivity gap									
Interest rate contracts									
- futures	**-**	**(10,000)**	**30,000**	**(20,000)**	**-**	**-**	**-**	**-**	
- options	**(250,000)**	**100,000**	**(180,000)**	**330,000**		**-**	**-**	**-**	
- swaps	**726,242**	**239,054**	**1,578,279**	**127,146**	**405,963**	**-**	**-**	**3,076,684**	
Total interest sensitivity gap	**16,128,827**	**1,801,220**	**(1,591,515)**	**(753,318)**	**(886,914)**	**(16,836,480)**	**5,214,864**	**3,076,684**	

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

39 Interest/ Profit Rate Risk (Cont'd)

Bank 31 Dec 2010	Non-trading book Up to 1 month RM'000	 >1 - 3 months RM'000	 >3 - 12 months RM'000	 1 - 5 years RM'000	 Over 5 years RM'000	 Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
ASSETS									
Cash and short term funds	8,761,358	-	-	-	-	1,897,502	-	10,658,860	2.60
Securities purchased under resale agreements	3,968,170	2,499,693	-	-	-	-	-	6,467,863	2.77
Deposits and placements with banks and other financial institutions	47,275	749,526	654,971	20,043	-	-	-	1,471,815	2.79
Financial assets held-for-trading	-	-	-	-	-	-	4,747,054	4,747,054	3.05
Financial investments available-for-sale	275,189	1,242,645	521,395	798,269	208,138	23,789	-	3,069,425	3.24
Loans, advances and financing									
- performing	24,565,346	2,532,287	652,480	156,605	283,842	965,037	-	29,155,597	5.03
- impaired*	-	-	-	-	-	284,171	-	284,171	-
Others	-	-	-	-	-	1,505,507	1,832,022	3,337,529	-
Total Assets	37,617,338	7,024,151	1,828,846	974,917	491,980	4,676,006	6,579,076	59,192,314	
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers	21,150,410	4,937,585	6,216,622	2,288,573	578,395	9,385,324	-	44,556,909	1.99
Deposits and placements from banks and other financial institutions	4,173,155	211,295	100,893	8,170	7,737	1,760,286	-	6,261,536	2.25
Bills and acceptances payable	14,608	1,654	-	-	-	407,436	-	423,698	2.13
Recourse obligation on loans sold to Cagamas Berhad	-	134,991	240,000	-	-	-	-	374,991	4.94
Subordinated bonds	-	-	-	-	1,003,039	-	-	1,003,039	4.70
Others	-	-	-	-	-	1,097,917	1,277,989	2,375,906	-
Total Liabilities	25,338,173	5,285,525	6,557,515	2,296,743	1,589,171	12,650,963	1,277,989	54,996,079	
Shareholders' funds	-	-	-	-	-	4,196,235	-	4,196,235	
Total Liabilities and Shareholders' funds	25,338,173	5,285,525	6,557,515	2,296,743	1,589,171	16,847,198	1,277,989	59,192,314	
On-balance sheet interest sensitivity gap	12,279,165	1,738,626	(4,728,669)	(1,321,826)	(1,097,191)	(12,171,192)	5,301,087	-	
Off-balance sheet interest sensitivity gap									
Interest rate contracts									
- futures	-	60,000	(30,000)	(30,000)	-	-	-	-	
- options	(208,308)	(160,000)	160,000	208,308		-	-	-	
- swaps	1,111,522	(2,548,963)	1,013,912	(9,613)	530,805	-	-	97,663	
Total interest sensitivity gap	13,182,379	(910,337)	(3,584,757)	(1,153,131)	(566,386)	(12,171,192)	5,301,087	97,663	

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

40 Repurchase and Reverse Repurchase Transactions and Collateral Pledged/Accepted

In the normal course of business, the Group and the Bank sell assets to raise liabilities and accept assets for resale. Assets sold and received are mainly via repurchase agreements and reverse repurchase agreements. Collateral is accepted and pledged on derivative contracts, mainly in the form of cash.

	Group		*Bank*	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Carrying amount of assets and collateral pledged				
- Sold under repurchase agreements	**192,401**	147,534	**-**	-
- Collateral pledged on derivative contracts (ISDA*)	**64,550**	-	**64,550**	-
Fair value of assets and collateral accepted				
- Securities bought under reverse repurchase agreement	**3,682,969**	6,467,863	**3,682,969**	6,467,863
- Securities sold under repurchase agreement	**220,973**	179,516	**220,973**	179,516
- Collateral accepted on derivative contracts (ISDA*)	**46,480**	-	**46,480**	-

* *ISDA: International Swaps and Derivatives Association*

41 Fair Values of Financial Assets and Liabilities

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

	Group			
	31 Dec 2011 Carrying amount RM'000	**31 Dec 2011 Fair Value RM'000**	31 Dec 2010 Carrying amount RM'000	31 Dec 2010 Fair Value RM'000
Financial Assets				
Cash and short term funds	**21,603,227**	**21,603,227**	11,815,604	11,815,604
Securities purchased under resale agreements	**3,682,969**	**3,682,969**	6,467,863	6,467,863
Deposits and placements with banks and other financial institutions	**651,778**	**651,778**	330,981	330,981
Financial Assets Held-for-Trading	**6,217,237**	**6,217,237**	4,895,060	4,895,060
Financial Investments Available-for-Sale	**4,873,818**	**4,873,818**	3,400,090	3,400,090
Loans, advances and financing	**39,156,932**	**39,179,635**	34,076,044	34,079,749
Financial Liabilities				
Deposits from customers	**58,523,846**	**57,715,527**	48,339,424	47,836,879
Deposits and placements from banks and other financial institutions	**9,908,962**	**9,839,270**	6,853,048	6,851,523
Bills and acceptances payable	**521,337**	**521,337**	429,229	429,229
Recourse obligation on loans sold to Cagamas Berhad	**-**	**-**	374,991	379,760
Subordinated bonds	**1,015,200**	**1,038,482**	1,003,039	991,786

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

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

	Bank			
	31 Dec 2011 Carrying amount RM'000	**31 Dec 2011 Fair Value RM'000**	31 Dec 2010 Carrying amount RM'000	31 Dec 2010 Fair Value RM'000
Financial Assets				
Cash and short term funds	**20,292,272**	**20,292,272**	10,658,860	10,658,860
Securities purchased under resale agreements	**3,682,969**	**3,682,969**	6,467,863	6,467,863
Deposits and placements with banks and other financial institutions	**3,687,058**	**3,687,058**	1,471,815	1,471,815
Financial Assets Held-for-Trading	**6,000,521**	**6,000,521**	4,747,054	4,747,054
Financial Investments Available-for-Sale	**4,451,732**	**4,451,732**	3,069,425	3,069,425
Loans, advances and financing	**31,610,586**	**31,638,176**	29,439,768	29,463,378
Financial Liabilities				
Deposits from customers	**53,047,615**	**52,277,351**	44,556,909	44,056,270
Deposits and placements from banks and other financial institutions	**9,429,554**	**9,429,530**	6,261,536	6,261,492
Bills and acceptances payable	**513,737**	**513,737**	423,698	423,698
Recourse obligation on loans sold to Cagamas Berhad	**-**	**-**	374,991	379,760
Subordinated bonds	**1,015,200**	**1,038,482**	1,003,039	991,786

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

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

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

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

Loans, advances and financing

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

Deposits from customers
Deposits and placements from 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.

Subordinated bonds

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

42 Lease Commitments

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

	Group		*Bank*	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
Year	**RM'000**	RM'000	**RM'000**	RM'000
Less than one year	**32,648**	32,305	**29,778**	27,630
Between one and three years	**38,337**	35,624	**37,686**	33,203
Between three and five years	**24,082**	21,768	**24,082**	21,768
More than five years	**12,007**	10,714	**12,007**	10,714
	107,074	100,411	**103,553**	93,315

43 Capital Commitments

	Group		*Bank*	
	31 Dec 2011	31 Dec 2010	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000	**RM'000**	RM'000
Capital expenditure commitments:				
Property and equipment				
- Authorised and contracted , but not provided for	**4,829**	14,921	**3,442**	13,883
- Authorised but not contracted for	**1,642**	6,128	**909**	6,128
	6,471	21,049	**4,351**	20,011

44 Equity-based Compensation

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

a. *Executive Share Option Scheme/Group Share Option Plan*

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

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

Group

Year	**2011 Number ('000)**	**Weighted average exercise price £**	2010 Number ('000)	Weighted average exercise price £
Outstanding at 1 January	**1,612**	**6.91**	1,612	6.91
Outstanding at 31 December	**1,612**	**6.91**	1,612	6.91
Options vested at 31 December	**-**		-	

	2011 RM'000	2010 RM'000
Compensation cost recognised during the year	**-**	110

Bank

Year	**2011 Number ('000)**	**Weighted average exercise price £**	2010 Number ('000)	Weighted average exercise price £
Outstanding at 1 January	**1,612**	**6.91**	1,612	6.91
Outstanding at 31 December	**1,612**	**6.91**	1,612	6.91
Options vested at 31 December	**-**		**-**	

	2011 RM'000	2010 RM'000
Compensation cost recognised during the year	**-**	110

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

44 Equity-based Compensation (Cont'd)

b. *Savings-Related Share Option Schemes*

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

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

Group

Year	**2011 Number ('000)**	**Weighted average exercise price £**	2010 Number ('000)	Weighted average exercise price £
Outstanding at 1 January	**5,016**	**4.13**	5,686	3.92
Granted in the year	**435**	**5.10**	423	5.46
Exercised in the year	**(255)**	**6.00**	(642)	3.70
Lapsed in the year	**(576)**	**3.95**	(451)	3.56
Outstanding at 31 December	**4,620**	**4.14**	5,016	4.13
Options vested at 31 December	**255**		-	

	2011 RM'000	2010 RM'000
Compensation cost recognised during the year	**9,406**	11,241

Bank

Year	**2011 Number ('000)**	**Weighted average exercise price £**	2010 Number ('000)	Weighted average exercise price £
Outstanding at 1 January	**4,977**	**4.12**	5,642	3.93
Granted in the year	**421**	**5.10**	415	5.46
Exercised in the year	**(252)**	**6.00**	(638)	3.70
Lapsed in the year	**(560)**	**3.96**	(442)	3.56
Outstanding at 31 December	**4,586**	**4.13**	4,977	4.12
Options vested at 31 December	**252**		-	

	2011 RM'000	2010 RM'000
Compensation cost recognised during the year	**9,294**	11,076

44 Equity-based Compensation (Cont'd)

c. *Restricted Share Plan*

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

Year	*Group*		*Bank*	
	2011 Number ('000)	2010 Number ('000)	**2011 Number ('000)**	2010 Number ('000)
Outstanding at 1 January	**447**	89	**447**	89
Additions during the year	**74**	358	**74**	358
Released in the year	**(76)**	-	**(76)**	-
Outstanding at 31 December	**445**	447	**445**	447

	2011 RM'000	2010 RM'000	**2011 RM'000**	2010 RM'000
Compensation cost recognised during the year	**17,046**	6,934	**16,798**	6,907

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan is £6.50 (2010: £6.87). The closing price of the HSBC share at 31 December 2011 was £4.91 (2010: £6.51). The weighted average remaining vesting period as at 31 December 2011 was 2.73 years (2010: 2.73 years).

d. *Achievement Share Award*

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

Year	*Group*		*Bank*	
	2011 Number ('000)	2010 Number ('000)	**2011 Number ('000)**	2010 Number ('000)
Outstanding at 1 January	**122**	259	**122**	259
Released in the year	**(122)**	(112)	**(122)**	(112)
Lapsed in the year	**-**	(25)	**-**	(25)
Outstanding at 31 December	**-**	122	**-**	122

	2011 RM'000	2010 RM'000	**2011 RM'000**	2010 RM'000
Compensation cost recognised during the year	**-**	2,671	**-**	2,671

No shares were purchased by HSBC for awards under the Achievement Shares Award in 2011 and 2010. The closing price of the HSBC share at 31 December 2011 was £4.91 (2010: £6.51). The weighted average remaining vesting period as at 31 December 2011 was Nil (2010: 1.00 year).

Company No.
127776-V

45 Comparative Figures

Restatement of Comparative Figures

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

(i) Reclassification/restatement to conform to current year's presentation due to a change in the internal classification of states in Malaysia making up the geographical regions.

Statement of Financial Position as at 31 December 2010	Group		Bank	
	RM'000	RM'000	RM'000	RM'000
a) Loans, advances and financing	As restated	As previously stated	As restated	As previously stated
By geographical region				
Northern region	6,702,818	5,627,466	5,748,276	4,833,290
Southern region	4,496,785	5,238,476	3,979,936	4,596,318
Central region	19,649,521	19,983,182	16,788,288	17,086,892
Eastern region	4,125,333	4,125,333	3,709,168	3,709,168
	34,974,457	34,974,457	30,225,668	30,225,668

	Group		Bank	
	RM'000	RM'000	RM'000	RM'000
b) Impaired Loans, advances and financing	As restated	As previously stated	As restated	As previously stated
By geographical region				
Northern region	150,506	117,512	131,287	101,069
Southern region	176,563	198,763	163,698	184,364
Central region	270,384	281,178	238,703	248,255
Eastern region	95,028	95,028	87,983	87,983
	692,481	692,481	621,671	621,671

45 Comparative Figures (Cont'd)

Restatement of Comparative Figures (Cont'd)

(ii) Reclassification to conform to current year's presentation upon adoption of Amendment to FRS 2, Share Based Payment. However, as the impact is not significant, the statement of financial position for 1 January 2010 was not presented.

Statement of Financial Position as at 31 December 2010	Group		Bank	
	RM'000 As restated	RM'000 As previously stated	RM'000 As restated	RM'000 As previously stated
a) Other assets				
Derivative financial assets	1,133,709	1,133,709	1,122,554	1,122,554
Interest/ income receivable	45,932	45,932	44,881	44,881
Other receivables, deposits and prepayments*	843,912	844,378	811,455	811,921
	2,023,553	2,024,019	1,978,890	1,979,356
b) Other liabilities				
Derivative financial liabilities	970,123	970,123	958,968	958,968
Interest/ profit payable	176,702	176,702	161,520	161,520
Allowance for commitments and contingencies	1,980	1,980	1,980	1,980
Profit equalisation reserve	6,700	6,700	-	-
Other creditors and accruals**	1,198,988	1,280,623	1,154,728	1,236,028
	2,354,493	2,436,128	2,277,196	2,358,496
c) Reserves [see statements of changes in equity]				
Capital contribution reserves	81,169	-	80,834	-

* Reclassification of capital contribution for share awards of RM466,000 to capital contribution reserves.

** Reclassification of capital contribution on share options of RM81,635,000 and 81,300,000 respectively to capital contribution reserves.

Statement of Financial Position as at 1 January 2010	Group		Bank	
	RM'000 As restated	RM'000 As previously stated	RM'000 As restated	RM'000 As previously stated
a) Other liabilities				
Derivative financial liabilities	618,732	618,732	608,495	608,495
Interest/ profit payable	152,594	152,594	144,551	144,551
Allowance for commitments and contingencies	2,440	2,440	2,440	2,440
Profit equalisation reserve	6,700	6,700	-	-
Other creditors and accruals*	966,761	1,041,464	1,288,604	1,363,164
	1,747,227	1,821,930	2,044,090	2,118,650
b) Reserves [see statements of changes in equity]				
Capital contribution reserves	74,703	-	74,560	-

* Reclassification of capital contribution on share options of RM74,703,000 and 74,560,000 respectively to capital contribution reserves.

(iii) Reclassification to conform to current year's presentation.

Statement of Comprehensive Income for the year ended 31 December 2010	Group		Bank	
	RM'000 As restated	RM'000 As previously stated	RM'000 As restated	RM'000 As previously stated
a) **Interest income**				
Loans and advances				
- Interest income other than from impaired loans	1,385,390	1,350,442	1,385,390	1,350,442
- Interest income recognised from impaired loans	3,350	38,298	3,350	38,298