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

FINANCIAL STATEMENTS – 31 DECEMBER 2012

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

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
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CONTENTS

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

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

Dato' Henry Sackville Barlow
Independent Non-Executive Director

Datuk Ramli bin Ibrahim
Independent Non-Executive Director

Ching Yew Chye
Independent Non-Executive Director

Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem
Independent Non-Executive Director
(resigned 2 April 2012)

PROFILE OF DIRECTORS

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

Mr. Wong was appointed as Non-Executive Director and Chairman on 5 February 2010. He was educated at Indiana University in the United States and holds a Bachelor's degree in Computer Science, an MBA in Marketing and Finance and an MSc in Computer Science. His banking career began in 1980. He joined HSBC Group in 2005, and was Group General Manager and Executive Director, Hong Kong and Mainland China, until he assumed his current position in February 2010.

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

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, Mr Hussain is also a Non-Executive Director of HSBC Amanah Takaful (Malaysia) Sdn Bhd and HSBC Amanah Malaysia Berhad.

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

Mr Baldev was appointed 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 15 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.

Profile of Directors (Cont'd)

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, Risk Management Committee and Connected Party Transactions 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 and Nominating 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.

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.

Profile of Directors (Cont'd)

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 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 seven (7) members; comprising two (2) non-independent executive Directors, one (1) non-independent non-executive Director and four (4) 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).

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.

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.

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 the individual Directors to have a minimum attendance of at least 75% of all meetings. All the Directors of the Bank have complied with this requirement.

Board Responsibility and Oversight (Cont'd)

BOARD OF DIRECTORS (Cont'd)

Frequency and Conduct of Board Meetings (Cont'd)

The attendance of Directors at the Board meetings held in the financial year ended 31 December 2012 were as follows:

Name of members	Independent/ Non-Independent	Attendance and number of meetings
Peter Wong Tung Shun	Chairman Non-Independent Non-Executive Director	5 / 6
Mukhtar Malik Hussain	Deputy Chairman and Chief Executive Officer Non-Independent Executive Director	6 / 6
Baldev Singh	Chief Financial Officer Non-Independent Executive Director	6 / 6
Tan Sri Dato' Sulaiman bin Sujak	Independent Non-Executive Director	6 / 6
Dato' Henry Sackville Barlow	Independent Non-Executive Director	5 / 6
Datuk Ramli bin Ibrahim	Independent Non-Executive Director	6 / 6
Ching Yew Chye	Independent Non-Executive Director	6 / 6
Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem *[resigned 2 April 2012]*	Independent Non-Executive Director	1 / 1

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.

Board Responsibility and Oversight (Cont'd)

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 2012 and all members attended every meeting held.

Terms of Reference

As part of the annual review, the Audit Committee Terms of Reference was revised and approved by the Committee (as per the authority delegated by the Board) at the Audit Committee meeting held on 26 April 2012.

Membership

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

The 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 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, 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, 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.

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

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

17. To receive from the Compliance function reports on the treatment of substantiated complaints regarding accounting, internal accounting controls or auditing matters received through the Group Disclosure Line (or such other system as the Group Audit Committee or Group Risk Committee may approve) for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

18. To report any significant actual, suspected or alleged fraud (involving misconduct or unethical behaviour related to financial reporting) or misrepresentation of assets, which has not been included in a report submitted by management to the Committee, to the non-executive committee responsible for oversight of risk established by that subsidiary's Regional Holding Company within the Group.

19. To agree with the Board the Company's policy for the employment of former employees of the external auditor, within the terms of the HSBC Group's 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 such other related tasks or topics as the Chairman or the Board may from to time entrust to it.

Board Responsibility and Oversight (Cont'd)

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

23. The Committee may appoint, employ or retain such professional advisors as the Committee may consider appropriate. Any such appointment shall be made through the Secretary to the Committee, who shall be responsible for the contractual arrangements and payment of fees by the Company on behalf of the Committee.

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

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

26. To provide half-yearly certificates to the Group Audit Committee, or to any audit committee of an intermediate holding company in the form required by the Group Audit Committee. Such certificates are to include a statement that the members of the Committee are independent.

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

28. To investigate any matter within these terms of reference, to have full access to and co-operation by management and to have full and unrestricted access to information.

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 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 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.

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 five (5) Risk Management Committee meetings were held during the financial year of 2012 and all members attended every meeting held except for Mr. Ching Yew Chye due to unexpected circumstances.

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. There was no revision made to the Terms of Reference during the year.

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. 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 non-executive director. 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 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 non-executive director.

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

Objective

The Committee shall be accountable to the Board and shall have non-executive responsibility for oversight of and advice to the Board 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

1.0 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, 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 on risk appetite and tolerance in determining strategy.

In preparing advice to the Board 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 on alignment of remuneration with risk appetite.

1.4 To consider and advise the Board 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, drawing on independent external advice where appropriate and available, before the Board 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 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.

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; 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 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 such other related tasks or topics as the Chairman or the Board 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, any necessary changes.

1.18 To report to the Board 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 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 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.

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
Ching Yew Chye
Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem *[resigned 2 April 2012]*
Dato' Henry Sackville Barlow *[appointed 9 August 2012]*

Frequency of the Meetings

A total of six (6) meetings were held during the financial year of 2012 and all members attended every meeting held.

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. There was no revision made to the Terms of Reference during the year.

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.

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 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:

Ching Yew Chye
Tan Sri Dato' Sulaiman bin Sujak *[appointed 16 August 2012]*
Professor Emeritus Datuk Dr Mohamed Ariff Abdul Kareem *[resigned 2 April 2012]*
Ramnath Krishnan (Chief Risk Officer)
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 16 February 2012.

<u>Quorum</u>

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.

<u>Meetings and Chairman</u>

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.

<u>Written/Circulating Resolution</u>

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.

<u>Powers Delegated by the Board</u>

The Committee is delegated with the authority of the Board to approve all corporate/commercial credit transactions up to RM50 million (inclusive of existing credit facilities) with a connected party of HSBC Bank Malaysia Berhad (HBMY). 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:

§ HBMY 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 Board Committees
- Business Progress Report
- Financial Performance Report
- Rolling/Annual Operating Plan
- Market Risk Limits
- Risk Appetite Statement
- Internal Capital Adequacy Assessment Process
- Advance Internal Ratings –Based Approach ("IRBA") Implementation Plan
- HSBC Global Standards and Risk and Control Framework
- Risk Management Reports on Asset Quality
- Credit Advances Reports
- Scenario Stress Testing and Reverse Stress Testing Results
- Credit Transactions and Exposures to Connected Parties
- Anti Money Laundering and Counter Terrorist Financing Reports
- Organisational Effectiveness Update Report
- Resolvability and Resolution Plan
- People and Structure Strategy
- 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 all the operations for which they are responsible. Primary controls within the internal control environment are provided by established and documented procedures with secondary controls effected through managerial and executive supervision. Internal Audit provides tertiary controls through independent inspections.

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

Responsibilities for financial performance against plans and for capital expenditure, credit exposures and market risk exposures are delegated within limits to line management. Global function in the HSBC Group Head Office is responsible for setting 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. Entities of the HSBC Group operate within these policies, procedures and standards set by the HSBC Global functions.

HSBC Bank Malaysia Berhad and its subsidiaries' ("the Group") internal audit function monitors compliance with policies and standards and the effectiveness of internal control structures across the whole Group in conjunction with other HSBC Group Internal Audit units. The work of the operational risk assurance and audit functions 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 administratively to the Chief Executive Officer.

The Audit Committee has also reviewed the annual internal audit plan to ensure adequate scope and comprehensive coverage on the audit activities, effectiveness of the audit process, adequate resource deployment for the year and satisfactory performance of the Group's Internal Audit Unit. The Committee has reviewed the internal audit reports, audit recommendations made and management's response to these recommendations. Where appropriate, the Committee has directed actions to be taken by the Group's management team to rectify any deficiencies identified by internal audit and 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
RAM Ratings Services Berhad	June 2012	- Long term	AAA
		- Short term	P1
		- Subordinated bonds	AA1
		- Outlook	Stable
Moody's Investors Service	January 2013	- Financial strength rating	C-
		- Foreign currency long term deposits	A3
		- Local currency long term deposits	A1
		- Foreign currency short term debt	P-2
		- Local currency short term debt	P-1
		- Outlook	Stable

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

Rating Agency	Date	Rating Classification	Ratings Received
RAM Ratings Services Berhad	June 2012	- Long term	AAA
		- Short term	P1
		- Outlook	Stable

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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

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 2012.

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
	RM'000	RM'000
Profit for the year attributable to the owner of the Bank		
Profit before income tax expense	1,572,982	1,407,812
Income tax expense	(371,635)	(339,704)
Profit after income tax expense	1,201,347	1,068,108

Dividends

Since the end of the previous financial year, the Bank paid a final dividend for the year ended 2011 of RM1.747 per ordinary share less tax at 25% amounting to RM300 million as proposed in the previous year's directors' report. The dividend was paid on 5 April 2012. 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 2012 on 28 September 2012.

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 financial statements 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.

Directors' Report (Cont'd)

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 2012 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.

Directors' Report (Cont'd)

Business Strategy during the Year 2012

Malaysia's GDP growth for 2012 continues to be spurred by robust domestic and private consumption, effectively mitigating against negative spillovers from weaknesses in the external environment. The government's efforts through the Economic Transformation Programme (ETP) have contributed to sustainable economic growth within the country. The Malaysian financial services industry in particular, despite facing both macroeconomic pressures and regulatory changes, still recorded strong growth in both loans and deposits. It is against this backdrop and the intensified competition from existing and new competitors alike that the Group delivered an outstanding performance, achieving the highest profit before tax in history as it continues to remain 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 ("the Bank") and its wholly owned subsidiary, HSBC Amanah Malaysia Berhad's ("HSBC Amanah") AAA/P1 ratings, reflecting the Group's robust asset quality and strong financial standing. The Bank maintained its market leader position in various segments and won numerous awards in 2012. Amongst the awards won are:

HSBC Bank Malaysia

1. Best Bank In Malaysia - The Asset Triple A Country Awards (10th consecutive year)
2. Best Debt House - The Asset Triple A Country Awards (6th consecutive year)
3. Best Domestic Cash Management Bank - Euromoney (Euromoney Cash Management Poll) (6^{th} consecutive year)
4. Best Foreign Commercial Bank - Finance Asia (9^{th} consecutive year)
5. Best Foreign Bank - Alpha Southeast Asia (4^{th} consecutive year)

HSBC Amanah

1. Best Sukuk House 2012 - Euromoney
2. Most Innovative Deal (Axiata RMB Sukuk) - Euromoney
3. Best Islamic Finance Bank in South East Asia - Alpha Southeast Asia
4. Best Project Financing (Tanjung Bin Energy USD2.1 Billion Senior Loan) - Asia Money
5. Best Islamic Finance Deal (Axiata RMB Sukuk) - Finance Asia
6. Project Bond of the Year (Tanjung Bin Energy MYR 3.29 Billion Sukuk) - PFI Awards
7. Best Sovereign Sukuk (Government of Malaysia US2 Billion Dual Tranche Global Sukuk) – The Asset Triple A Asian Awards
8. Islamic Deal of the Year - (Government of Malaysia US2 Billion Dual Tranche Global Sukuk) – The Asset Triple A Asian Awards
9. Best Islamic Deal Malaysia - (Government of Malaysia US2 Billion Dual Tranche Global Sukuk) – The Asset Triple A Asian Awards
10. Best International Islamic Bank– Euromoney
11. Outstanding Contribution to Islamic Finance Award - (Government of Malaysia Wakala Global Sukuk Berhad) – Euromoney

The Retail Banking and Wealth Management (RBWM) segment has seen significant additions in the range and diversity of wealth and asset management products and services offered during the year. The launch of the HSBC Fund Navigator, an online unit trust fund analytical tool to aid customers in making informed investment decisions is the first amongst retail banks in Malaysia, and a testament of the Group's commitment to develop products and solutions in response to market trends and in support of our customers' personal and business needs.

Directors' Report (Cont'd)

Business Strategy during the Year 2012 (Cont'd)

The Group's Global Market's (GM) segment continues to take advantage of its debt capital market (DCM) leadership and expertise to secure key deals, and once again asserted its market leadership position among foreign banks in the debt capital markets industry by maintaining HSBC's position as the No.1 foreign bookrunner for Malaysian Ringgit bonds and Islamic bonds for the sixth consecutive year. The Group also focused on driving incremental growth in the foreign exchange flow business amongst its corporate clientele as well as strategically positioning itself so as to be able to capture additional value in the form of other related trades from its larger DCM deals.

On the Corporate platform, increased efforts were made to deepen existing relationships and deliver more value. Global Trade and Receivables Finance (GTRF) focused on key sectors and clients in bilateral trade flows within countries in East Asia with promising results during the year. Payment and Cash Management (PCM) once again won the Euromoney Best Domestic Cash Management Bank Award for 2012, bearing testimony to the strength of HSBC's PCM proposition in Malaysia.

In 2012, the Group successfully rolled out its remaining HSBC Amanah branches. HSBC now boasts the widest branch and delivery network amongst foreign banks in Malaysia, with a total number of 68 branches (42 conventional, and 26 Islamic) and 25 standalone HSBC Amanah ATMs. The Group is also a member of the Malaysian Electronic Payment System ("MEPS"), a shared automatic teller machine ("ATM") network of local banks with more than 10,000 ATMs nationwide and a member of HOUSe, a shared ATM network connecting 4 locally incorporated foreign banks in Malaysia.

At HSBC Malaysia, we continue to invest in the long-term future of the community in which we operate. We focus our community investment on education, the environment and philanthropic activities because we believe they provide the fundamental building blocks for the development of 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. The Group's approach to sustainability is about managing its business successfully, profitably and for the long term. The Group's efforts have been recognised as this year, HSBC Bank Malaysia was awarded the Prime Minister's Hibiscus Award for Notable Achievement in Environmental Performance 2010/2011.

Outlook For 2013

With the continually evolving regulatory environment and slower economic activity predicted in major global economies, both growth and margins are expected to be under pressure, with the overall outlook for the local banking sector appearing challenging. Nevertheless, growth in the local financial and insurance sectors in 2013 is still expected to remain resilient, supported by the continued expansion in domestic demand and private sector activities.

The focus in 2013 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 a special emphasis on wealth management services) to the Group's existing customers. The Group will also capitalise on the HSBC Group's international connectivity for cross border trade initiatives, and will engage with relevant Government bodies for early identification of inbound investments. As liquidity conditions in the domestic financial markets is expected to remain favourable for further expansion of bond-market activity, the Group will play on its Debt Capital Market leadership position and expertise to secure more key deals.

The Group is currently guided by both HSBC Group's global standards and local regulatory requirements in Risk and Compliance and will continue to improve the effectiveness and efficiency of its business model in 2013 under the backdrop of these standards and requirements. At the same time, the Group will focus on delivering quality customer service and offer needs based banking products and business solutions, while deepening relationships with valued clients and customers.

Directors' Report (Cont'd)

Directors and their Interests in Shares

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

Peter Wong Tung Shun
Mukhtar Malik Hussain
Baldev Singh s/o Gurdial Singh
Tan Sri Dato' Sulaiman bin Sujak
Dato' Henry Sackville Barlow
Datuk Ramli bin Ibrahim
Ching Yew Chye
Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem *(resigned 2 April 2012)*

In accordance with Article 77 and 78 of the Articles of Association, Peter Wong Tung Shun shall retire as a Director at the forthcoming Annual General Meeting and being eligible, offer himself for re-election**.**

In accordance with Section 129(2) of the Companies Act, 1965, Tan Sri Dato' Sulaiman bin Sujak and Datuk Ramli bin Ibrahim 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 1.1.2012 (or at date of appointment)	Bought	(Sold)	Balance at 31.12.2012
HSBC Holdings plc				
Ordinary shares of USD0.50				
Peter Wong Tung Shun	428,366 ([1])	302,510 ([1])	-	730,876 ([1])
Mukhtar Malik Hussain	388,720	352,599	-	741,319
Baldev Singh s/o Gurdial Singh	14,171	4,685	-	18,856
Tan Sri Dato' Sulaiman bin Sujak	79,911	4,718	-	84,629
Ching Yew Chye	32,155	1,587	-	33,742

([1]) *Including the interest of spouse.*

Directors and their Interests in Shares (Cont'd)

Name	Number of Shares				
	Shares held at 1.1.2012 (or at date of appointment)	Shares issued during year ^	(Shares forfeited during the year)	(Shares vested during the year)	Shares held at 31.12.2012
HSBC Holdings plc					
HSBC Share Plan					
Peter Wong Tung Shun	406,683	427,926	-	287,444	547,165
Mukhtar Malik Hussain	863,983	134,719	-	711,711	286,991
Baldev Singh s/o Gurdial Singh	7,347	5,022	-	6,084	6,285

^ *Includes scrip dividends*

Name	Number of Options				
	Balance at 1.1.2012 (or at date of appointment)	Granted	(Exercised)	(Lapsed)	Balance at 31.12.2012
Options over HSBC Holdings plc Shares					
Mukhtar Malik Hussain	4,016	-	4,016	-	-
Baldev Singh s/o Gurdial Singh	10,916	-	5,178	-	5,738

The other director holding office at 31 December 2012 did not have any interest in the ordinary shares and options over shares of the Bank and of its related corporations during the financial year.

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
22 February 2013

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 34 to 136 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2012 and of their financial performance and cash flows of the Group and of the Bank for the year then ended.

Signed at Kuala Lumpur, Malaysia this 22 February 2013

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

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 34 to 136 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 22 February 2013.

....

BALDEV SINGH s/o GURDIAL SINGH

BEFORE ME:

…………………………………………….
Signature of Commissioner for Oaths

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 2012 of the Group and of the Bank, and the statements of comprehensive income, changes in equity and 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 34 to 136.

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 Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is 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 give a true and fair view of the financial position of the Group and of the Company as of 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Independent Auditors' Report (Cont'd)

Report on Other Legal and Regulatory Requirements

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

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the Act.

b) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Bank's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

c) Our audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Matters

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

KPMG
Firm Number: AF 0758
Chartered Accountants

Foong Mun Kong
Approval Number: 2613/12/14(J)
Chartered Accountant

Date: 22 February 2013

Petaling Jaya

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

STATEMENTS OF FINANCIAL POSITION
AT 31 DECEMBER 2012

		Group		
		31 Dec 2012	31 Dec 2011	1 Jan 2011
	Note	**RM'000**	RM'000	RM'000
Assets				
Cash and short term funds	*6*	**12,663,437**	21,603,227	11,815,604
Securities purchased under resale agreements		**2,433,346**	3,682,969	6,467,863
Deposits and placements with banks and other financial institutions	*7*	**2,992,993**	651,778	330,981
Financial Assets Held-for-Trading	*8*	**4,597,107**	6,217,237	4,895,060
Financial Investments Available-for-Sale	*9*	**7,546,325**	4,873,818	3,400,090
Loans, advances and financing	*10*	**42,265,895**	39,638,357	34,474,109
Other assets	*12*	**2,196,564**	1,754,521	1,937,341
Statutory deposits with Bank Negara Malaysia	*13*	**1,330,159**	1,096,060	221,827
Property and equipment	*16*	**369,194**	354,032	318,481
Intangible assets	*17*	**53,525**	53,263	60,621
Deferred tax assets	*18*	**176,014**	168,266	252,174
Total assets		**76,624,559**	80,093,528	64,174,151
Liabilities				
Deposits from customers	*19*	**59,938,046**	58,737,097	48,492,474
Deposits and placements from banks and other financial institutions	*20*	**6,117,046**	9,908,962	6,853,048
Bills and acceptances payable		**504,349**	521,337	429,229
Other liabilities	*21*	**2,646,149**	4,546,590	2,247,500
Recourse obligation on loans sold to Cagamas Berhad		**-**	-	374,991
Provision for taxation		**14,168**	199,566	251,677
Multi-Currency Sukuk Programme	*22*	**500,000**	-	-
Subordinated bonds	*23*	**1,012,591**	1,015,200	1,003,039
Total liabilities		**70,732,349**	74,928,752	59,651,958
Equity				
Share capital	*24*	**114,500**	114,500	114,500
Reserves	*25*	**5,477,710**	4,750,276	4,157,693
Proposed dividend		**300,000**	300,000	250,000
Total equity attributable to owner of the Bank		**5,892,210**	5,164,776	4,522,193
Total liabilities and equity		**76,624,559**	80,093,528	64,174,151
Commitments and Contingencies	*38*	**126,997,325**	118,976,559	87,355,828

The financial statements were approved and authorised for issue by the Board of Directors on 22 February 2013.

The accompanying notes form an integral part of the financial statements

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

STATEMENTS OF FINANCIAL POSITION (CONT'D)
AT 31 DECEMBER 2012

		Bank		
		31 Dec 2012	31 Dec 2011	1 Jan 2011
	Note	**RM'000**	RM'000	RM'000
Assets				
Cash and short term funds	*6*	**11,014,117**	20,292,272	10,658,860
Securities purchased under resale agreements		**2,433,346**	3,682,969	6,467,863
Deposits and placements with banks and other financial institutions	*7*	**4,645,468**	3,687,058	1,471,815
Financial Assets Held-for-Trading	*8*	**4,414,598**	6,000,521	4,747,054
Financial Investments Available-for-Sale	*9*	**6,281,042**	4,451,732	3,069,425
Loans, advances and financing	*10*	**33,782,016**	31,853,209	29,672,206
Other assets	*12*	**2,209,665**	1,734,637	1,895,128
Statutory deposits with Bank Negara Malaysia	*13*	**986,598**	867,498	187,098
Investments in subsidiary companies	*14*	**660,021**	660,021	660,021
Property and equipment	*16*	**341,355**	335,106	302,056
Intangible assets	*17*	**53,496**	52,802	59,122
Deferred tax assets	*18*	**134,541**	138,592	215,308
Total assets		**66,956,263**	73,756,417	59,405,956
Liabilities				
Deposits from customers	*19*	**51,298,258**	53,074,622	44,561,936
Deposits and placements from banks and other financial institutions	*20*	**6,007,271**	9,429,554	6,261,536
Bills and acceptances payable		**488,923**	513,737	423,698
Other liabilities	*21*	**2,625,929**	4,631,878	2,173,082
Recourse obligation on loans sold to Cagamas Berhad		**-**	-	374,991
Provision for taxation		**10,861**	168,318	225,616
Subordinated bonds	*23*	**1,012,591**	1,015,200	1,003,039
Total liabilities		**61,443,833**	68,833,309	55,023,898
Equity				
Share capital		**114,500**	114,500	114,500
Reserves		**5,097,930**	4,508,608	4,017,558
Proposed dividend		**300,000**	300,000	250,000
Total equity attributable to owner of the Bank		**5,512,430**	4,923,108	4,382,058
Total liabilities and equity		**66,956,263**	73,756,417	59,405,956
Commitments and Contingencies	*38*	**124,988,502**	116,742,039	85,680,212

The financial statements were approved and authorised for issue by the Board of Directors on 22 February 2013.

The accompanying notes form an integral part of the financial statements

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

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

		Group		Bank	
		31 Dec 2012	31 Dec 2011	**31 Dec 2012**	31 Dec 2011
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Revenue		**4,190,880**	3,955,373	**3,602,339**	3,565,731
Interest income	*26*	**2,259,315**	2,200,176	**2,318,655**	2,252,464
Interest expense	*26*	**(966,310)**	(1,026,950)	**(966,310)**	(1,026,950)
Net interest income	*26*	**1,293,005**	1,173,226	**1,352,345**	1,225,514
Fee and commission income	*27*	**518,613**	493,352	**518,643**	493,352
Fee and commission expense	*27*	**(30,901)**	(24,350)	**(30,901)**	(24,350)
Net fee and commission income	*27*	**487,712**	469,002	**487,742**	469,002
Net trading income	*28*	**622,893**	693,412	**621,680**	688,745
Income from Islamic banking operations	*29*	**566,990**	432,828	**-**	-
Other operating income	*30*	**37,444**	33,843	**143,361**	131,170
Operating income before impairment losses		**3,008,044**	2,802,311	**2,605,128**	2,514,431
Loans / financing impairment charges and other credit risk provisions	*31*	**(215,767)**	(159,986)	**(73,757)**	(63,581)
Impairment losses on intangible assets		**-**	(5,167)	**-**	(5,167)
Net operating income		**2,792,277**	2,637,158	**2,531,371**	2,445,683
Other operating expenses	*32*	**(1,219,295)**	(1,214,548)	**(1,123,559)**	(1,150,363)
Profit before income tax expense		**1,572,982**	1,422,610	**1,407,812**	1,295,320
Income tax expense	*33*	**(371,635)**	(362,907)	**(339,704)**	(336,505)
Profit for the year		**1,201,347**	1,059,703	**1,068,108**	958,815
Other comprehensive income					
Revaluation reserve:					
Surplus on revaluation of properties		**23,442**	11,270	**23,442**	11,270
Deferred tax adjustment on revaluation reserve		**(3,153)**	(236)	**(3,153)**	(236)
Cash flow hedge					
Effective portion of changes in fair value		**(308)**	854	**(308)**	854
Net amount transferred to profit or loss		**(400)**	-	**(400)**	-
Fair value reserve					
Change in fair value		**7,588**	10,251	**7,073**	9,872
Amount transferred to profit or loss		**-**	(1,432)	**-**	(1,432)
Income tax relating to components of other comprehensive income		**(1,722)**	(2,417)	**(1,593)**	(2,322)
Other comprehensive income for the year, net of income tax		**25,447**	18,290	**25,061**	18,006
Total comprehensive income for the year		**1,226,794**	1,077,993	**1,093,169**	976,821
Profit attributable to the owner of the Bank		**1,201,347**	1,059,703	**1,068,108**	958,815
Total comprehensive income attributable to the owner of the Bank		**1,226,794**	1,077,993	**1,093,169**	976,821
Basic earnings per RM0.50 ordinary share	*34*	**524.6 sen**	462.8 sen	**466.4 sen**	418.7 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**	131.0 sen	**131.0 sen**	131.0 sen

The financial statements were approved and authorised for issued by the Board of Directors on 22 February 2013.

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 2012

	Group												
	Attributable to the owner (the ultimate holding company)												
	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*	*Profit equalisation reserve*	*Retained profit*	*Total reserves*	*Proposed dividends*	*Total 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**	**RM'000**
Balance at 1 January 2011, FRS	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
Effect of transition to MFRS (Note 45)	-	-	-	-	-	-	-	-	-	201,107	201,107	-	201,107
Balance at 1 January 2011, MFRS	114,500	741,375	164,500	139,110	190,000	4,512	-	81,169	-	2,837,027	4,157,693	250,000	4,522,193
Total comprehensive income for the year													
Profit for the year	-	-	-	-	-	-	-	-	-	1,059,703	1,059,703	-	1,059,703
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 of properties	-	-	-	11,270	-	-	-	-	-	-	11,270	-	11,270
Cash flow hedge													
Effective portion of charges in fair value	-	-	-	-	-	-	854	-	-	-	854	-	854
Net amount transferred to profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-
Available-for-sale 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	-	-	1,061,250	1,077,993	-	1,077,993
Transactions with the owner (the 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 at 31 December 2011	114,500	741,375	164,500	148,597	190,000	10,914	854	89,811	-	3,404,225	4,750,276	300,000	5,164,776
Balance at 1 January 2012	**114,500**	**741,375**	**164,500**	**148,597**	**190,000**	**10,914**	**854**	**89,811**	**-**	**3,404,225**	**4,750,276**	**300,000**	**5,164,776**
Total comprehensive income for the year													
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,201,347**	**1,201,347**	**-**	**1,201,347**
Other comprehensive income, net of income tax													
Deferred tax adjustment on revaluation reserve	**-**	**-**	**-**	**(3,153)**	**-**	**-**	**-**	**-**		**-**	**(3,153)**	**-**	**(3,153)**
Revaluation reserve:													
Transfer to retained profit upon realisation of depreciation	**-**	**-**	**-**	**(1,564)**	**-**	**-**	**-**	**-**	**-**	**1,564**	**-**	**-**	**-**
Surplus on revaluation of properties	**-**	**-**	**-**	**23,442**	**-**	**-**	**-**	**-**		**-**	**23,442**	**-**	**23,442**
Cash flow hedge													
Effective portion of charges in fair value	**-**	**-**	**-**	**-**	**-**	**-**	**(230)**	**-**	**-**		**(230)**	**-**	**(230)**
Net amount transferred to profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**(300)**	**-**	**-**	**-**	**(300)**	**-**	**(300)**
Available-for-sale reserve:													
Net change in fair value	**-**	**-**	**-**	**-**	**-**	**5,688**	**-**	**-**	**-**	**-**	**5,688**	**-**	**5,688**
Total other comprehensive income	**-**	**-**	**-**	**18,725**	**-**	**5,688**	**(530)**	**-**	**-**	**1,564**	**25,447**	**-**	**25,447**
Total comprehensive income for the year	**-**	**-**	**-**	**18,725**	**-**	**5,688**	**(530)**	**-**	**-**	**1,202,911**	**1,226,794**	**-**	**1,226,794**
Transactions with the owner (the ultimate holding company), recorded directly in equity													
Share based payment transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,112**	**-**	**(4,492)**	**(3,380)**	**-**	**(3,380)**
Dividends paid to owner - 2011 final	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**(300,000)**	**(300,000)**
Dividends paid to owner - 2012 interim	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**(200,000)**	**(200,000)**	**-**	**(200,000)**
Proposed dividend - 2012 final	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**(300,000)**	**(300,000)**	**300,000**	**-**
Other transactions, recorded directly in equity													
Reclassification from other liabilities to equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,360** *	**-**	**5,360**	**-**	**5,360**
Reclassification to retained earnings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(5,360)**	**5,360**	**-**	**-**	**-**
Deferred tax adjustment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,340)**	**(1,340)**		**(1,340)**
Balance at 31 December 2012	**114,500**	**741,375**	**164,500**	**167,322**	**190,000**	**16,602**	**324**	**90,923**	**-**	**4,106,664**	**5,477,710**	**300,000**	**5,892,210**

The financial statements were approved and authorised for issue by the Board of Directors on 22 February 2013.
The accompanying notes form an integral part of the financial statements.

** Refer to Note 2e(iv)*

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012 (CONT'D)

	Bank											
	Attributable to the owner (the ultimate holding company)											
	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 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 at 1 January 2011, FRS	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
Effect of transition to MFRS (Note 45)	-	-	-	-	-	-	-	-	185,823	185,823	-	185,823
Balance at 1 January 2011, MFRS	114,500	741,375	114,500	139,110	190,000	4,648	-	80,834	2,747,091	4,017,558	250,000	4,382,058
Total comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	-	958,815	958,815	-	958,815
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 of properties	-	-	-	11,270	-	-	-	-	-	11,270	-	11,270
Cash flow hedge												
Effective portion of changes in fair value	-	-	-	-	-	-	854	-	-	854	-	854
Net amount transferred to profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
Available-for-sale 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	-	960,362	976,821	-	976,821
Transactions with the owner (the 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 at 31 December 2011	114,500	741,375	114,500	148,597	190,000	10,766	854	89,115	3,213,401	4,508,608	300,000	4,923,108
Balance at 1 January 2012	**114,500**	**741,375**	**114,500**	**148,597**	**190,000**	**10,766**	**854**	**89,115**	**3,213,401**	**4,508,608**	**300,000**	**4,923,108**
Total comprehensive income for the year												
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,068,108**	**1,068,108**	**-**	**1,068,108**
Other comprehensive income, net of income tax												
Deferred tax adjustment on revaluation reserve	**-**	**-**	**-**	**(3,153)**	**-**	**-**	**-**	**-**	**-**	**(3,153)**	**-**	**(3,153)**
Revaluation reserve:												
Transfer to retained profit upon realisation of depreciation	**-**	**-**	**-**	**(1,564)**	**-**	**-**	**-**	**-**	**1,564**	**-**	**-**	**-**
Surplus on revaluation of properties	**-**	**-**	**-**	**23,442**	**-**	**-**	**-**	**-**	**-**	**23,442**	**-**	**23,442**
Cash flow hedge												
Effective portion of changes in fair value	**-**	**-**	**-**	**-**	**-**	**-**	**(230)**	**-**	**-**	**(230)**	**-**	**(230)**
Net amount transferred to profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**(300)**	**-**	**-**	**(300)**	**-**	**(300)**
Available-for-sale reserve:												
Net change in fair value	**-**	**-**	**-**	**-**	**-**	**5,302**	**-**	**-**	**-**	**5,302**	**-**	**5,302**
Total other comprehensive income	**-**	**-**	**-**	**18,725**	**-**	**5,302**	**(530)**	**-**	**1,564**	**25,061**	**-**	**25,061**
Total comprehensive income for the year	**-**	**-**	**-**	**18,725**	**-**	**5,302**	**(530)**	**-**	**1,069,672**	**1,093,169**	**-**	**1,093,169**
Transactions with the owner (the ultimate holding company), recorded directly in equity												
Share based payment transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**645**	**(4,492)**	**(3,847)**	**-**	**(3,847)**
Dividends paid to owner - 2011 final	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(300,000)**	**(300,000)**
Dividends paid to owner - 2012 interim	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(200,000)**	**(200,000)**	**-**	**(200,000)**
Proposed dividend - 2012 final	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(300,000)**	**(300,000)**	**300,000**	**-**
Balance at 31 December 2012	**114,500**	**741,375**	**114,500**	**167,322**	**190,000**	**16,068**	**324**	**89,760**	**3,778,581**	**5,097,930**	**300,000**	**5,512,430**

The financial statements were approved and authorised for issue by the Board of Directors on 22 February 2013.
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 2012

	Group	
	31 Dec 2012	2011
	RM'000	RM'000
Cash Flows from Operating Activities		
Profit before income tax expense	**1,572,982**	1,422,610
Adjustments for :		
Property and equipment written off	**717**	129
Reversal of capitalised charges for intangible assets	**-**	810
Depreciation of property and equipment	**40,973**	41,233
Amortisation of intangible assets	**22,079**	25,463
Net losses/(gains) on disposal of property and equipment	**11**	(303)
Net gains on disposal of property, plant and equipment recognised in Islamic Banking	**-**	(2)
Net (upwards)/downwards revaluation on property	**(39)**	11
Impairment of intangibles	**-**	5,167
Share-based payment transactions	**(3,380)**	14,590
Dividend income	**(2,009)**	(1,176)
Operating profit before changes in operating assets and liabilities	**1,631,334**	1,508,532
Decrease/ (Increase) in operating assets		
Securities purchased under resale agreements	**1,249,623**	2,784,894
Deposits and placements with banks and other financial institutions	**(2,341,215)**	(320,797)
Financial Assets Held-for-Trading	**1,620,130**	(1,322,177)
Loans, advances and financing	**(2,627,538)**	(5,164,248)
Other assets	**(439,166)**	196,120
Statutory deposits with Bank Negara Malaysia	**(234,099)**	(874,233)
Increase/ (Decrease) in operating liabilities		
Deposits from customers	**1,200,949**	10,244,623
Deposits and placements from banks and other financial institutions	**(3,791,916)**	3,055,914
Bills and acceptances payable	**(16,988)**	92,108
Other liabilities	**(1,895,081)**	2,299,090
Recourse obligation on loans sold to Cagamas Berhad	**-**	(374,991)
Net cash (used in)/generated from operating activities	**(5,643,967)**	12,124,835
Income tax paid	**(577,189)**	(333,663)
Utilisation of zakat provisions	**-**	(100)
Net cash (used in)/generated from operating activities	**(6,221,156)**	11,791,072
Cash Flows from Investing Activities		
Purchase of property and equipment	**(33,565)**	(65,815)
Purchase of intangible assets	**(22,341)**	(24,082)
Proceeds from disposal of property and equipment	**183**	466
Financial Investments Available-for-Sale	**(2,664,920)**	(1,465,194)
Dividends received	**2,009**	1,176
Net cash used in investing activities	**(2,718,634)**	(1,553,449)
Cash Flows from Financing Activities		
Issuance of Multi-Currency Sukuk Programme	**500,000**	-
Dividends paid	**(500,000)**	(450,000)
Net cash used in financing activities	**-**	(450,000)
Net (decrease)/increase in Cash and Cash Equivalents	**(8,939,790)**	9,787,623
Cash and Cash Equivalents at beginning of year	**21,603,227**	11,815,604
Cash and Cash Equivalents at end of year	**12,663,437**	21,603,227
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**12,663,437**	21,603,227

The financial statements were approved and authorised for issue by the Board of Directors on 22 February 2013.

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 2012

	Bank	
	31 Dec 2012	2011
	RM'000	RM'000
Cash Flows from Operating Activities		
Profit before income tax expense	**1,407,812**	1,295,320
Adjustments for :		
Property and equipment written off	**716**	78
Depreciation of property and equipment	**33,063**	35,617
Amortisation of intangible assets	**21,629**	25,230
Net losses/(gains) on disposal of property and equipment	**11**	(303)
Net (upwards)/downwards revaluation on property	**(39)**	11
Impairment of intangibles	**-**	5,167
Net transfer of property and equipment to subsidiary	**144**	527
Share-based payment transactions	**(3,847)**	14,229
Dividend income	**(2,009)**	(1,176)
Operating profit before changes in operating assets and liabilities	**1,457,480**	1,374,700
Decrease/ (Increase) in operating assets		
Securities purchased under resale agreements	**1,249,623**	2,784,894
Deposits and placements with banks and other financial institutions	**(958,410)**	(2,215,243)
Financial Assets Held-for-Trading	**1,585,923**	(1,253,467)
Loans, advances and financing	**(1,929,475)**	(2,181,003)
Other assets	**(478,344)**	173,791
Statutory deposits with Bank Negara Malaysia	**(119,100)**	(680,400)
Increase/ (Decrease) in operating liabilities		
Deposits from customers	**(1,776,364)**	8,512,686
Deposits and placements from banks and other financial institutions	**(3,422,283)**	3,168,018
Bills and acceptances payable	**(24,814)**	90,039
Other liabilities	**(2,005,949)**	2,458,796
Recourse obligation on loans sold to Cagamas Berhad	**-**	(374,991)
Net cash (used in)/generated from operating activities	**(6,421,713)**	11,857,820
Income tax paid	**(497,188)**	(319,645)
Net cash (used in)/generated from operating activities	**(6,918,901)**	11,538,175
Cash Flows from Investing Activities		
Purchase of property and equipment	**(16,885)**	(58,174)
Purchase of intangible assets	**(22,323)**	(24,077)
Proceeds from disposal of property and equipment	**183**	464
Financial Investments Available-for-Sale	**(1,822,238)**	(1,374,152)
Dividend received	**2,009**	1,176
Net cash used in investing activities	**(1,859,254)**	(1,454,763)
Cash Flows from Financing Activity		
Dividends paid	**(500,000)**	(450,000)
Net cash used in financing activity	**(500,000)**	(450,000)
Net (decrease)/increase in Cash and Cash Equivalents	**(9,278,155)**	9,633,412
Cash and Cash Equivalents at beginning of year	**20,292,272**	10,658,860
Cash and Cash Equivalents at end of year	**11,014,117**	20,292,272
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**11,014,117**	20,292,272

The financial statements were approved and authorised for issue by the Board of Directors on 22 February 2013.

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 2012

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 hae been prepared in accordance with the Malaysian Financial Reporting Standards ('MFRS'), International Financial Reporting Standards ('IFRSs') and the Companies Act, 1965 in Malaysia. The financial statements incorporate those activities relating to Islamic Banking which have been undertaken by the Bank's Islamic subsidiary. Islamic Banking refers generally to the acceptance of deposits and granting of financing under the Shariah principles.

The Group has adopted the Malaysian Financial Reporting Standards ('MFRS') framework issued by the Malaysian Accounting Standards Board ('MASB') with effect from 1 January 2012. The MFRS framework was introduced in order to fully converge Malaysia's existing Financial Reporting Standards ('FRS') framework with the framework issued by the International Accounting Standards Board. Whilst all FRSs issued under the previous FRS framework were equivalent to the MFRSs issued under the MFRS framework, there are some differences in relation to the transitional provisions and effective dates contained in certain MFRSs.

These are the Group and Bank's first annual financial statements prepared in accordance with MFRSs, and MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards has been applied. The MFRSs did not result in any material financial impact to the Group and the Bank other than the financial impact arising from the change in accounting policy on i) the impairment of collectively assessed loans, advances and financing, ii) the fair valuation of structured deposits and iii) the recognition of securities pledged on Islamic repurchase agreements [only applicable to the Islamic subsidiary, HSBC Amanah] as the accounting policies adopted under the previous FRS framework were already in line with the requirements of the MFRS framework. The changes in these accounting policies are described in Note 2(e) Change in Accounting Policy. The financial impacts on transition to MFRSs are disclosed in Note 45. Other accounting treatment changes resulting from new/revised Bank Negara Malaysia's ('BNM') guidelines are also described in Note 2 (e)(iv).

The Group and the Bank have early adopted the amendments to MFRS 101, Presentation of Items of Other Comprehensive Income (Amendment to MFRS 101) which are effective for annual periods beginning on or after 1 July 2012. The early adoption of the amendments to MFRS 101 has no impact on the financial statements other than the presentation format of the statement of profit or loss and other comprehensive income.

The following are accounting standards, amendments and interpretations of the MFRS framework that have been issued by the MASB but have not been adopted by the Group and the Bank as they are not yet effective to the Group and Bank:

<u>Effective for annual periods commencing on or after 1 January 2013</u>
- MFRS 10, Consolidated Financial Statements
- MFRS 11, Joint Arrangements
- MFRS 12, Disclosure of Interest in Other Entities
- MFRS 13, Fair Value Measurement
- MFRS 119, Employee Benefits (IAS 19 as amended by IASB in June 2011)
- MFRS 127, Consolidated and Separate Financial Statements (IAS 27 as amended by IASB in December 2003)
- MFRS 128, Investments in Associates and Joint Ventures (IAS 28 as amended by IASB in May 2011

2 Basis of Preparation (Cont'd)

(a) Statement of compliance (Cont'd)

- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Government Loans)
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle: Repeated Application of MFRS 1 and Borrowing Cost)
- Amendments to MFRS 7, Disclosures-Offsetting Financial Assets and Financial Liabilities
- Amendments to MFRS 10, MFRS 11 and MFRS 12, Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
- Amendments to MFRS 101, Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle: Clarification of the Requirements for Comparative Information)
- Amendments to MFRS 116, Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle: Classification of Servicing Equipment)
- Amendments to MFRS 132, Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle: Tax effect of distribution to holders of equity instruments)
- Amendments to MFRS 134, Interim Financial Reporting (Annual Improvements 2009-2011 Cycle: Interim Financial Reporting and Segment Information for Total Assets and Liabilities)
- IC Interpretation 20, Stripping Costs in the Production Phase of a Surface Mine

<u>Effective for annual periods commencing on or after 1 January 2014</u>
- Amendments to MFRS 132, Financial Instruments: Presentation
(Offsetting Financial Assets and Financial Liabilities)

<u>Effective for annual periods commencing on or after 1 January 2015</u>
- MFRS 9, Financial Instruments (IFRS 9 issued by IASB in November 2009)
- MFRS 9, Financial Instruments (IFRS 9 issued by IASB in October 2010)
- Amendment to MFRS 7, Financial Instruments: Disclosures – Mandatory date of MFRS 9 and Transition Disclosures.

The Group and the Bank plan to apply the abovementioned accounting standards, amendments and interpretations from the annual period beginning 1 January 2013, except for Amendments to MFRS 132 (Offsetting Financial Assets and Financial Liabilities) that would apply for the annual period beginning on or after 1 January 2014 and MFRS 9 (2009 & 2010) and Amendment to MFRS 7 (Financial Instruments: Disclosures – Mandatory date of MFRS 9 and Transition Disclosures) that would apply for the annual period beginning on or after 1 January 2015 .

IC Interpretation 20 is not expected to have any impact on the financial statements of the Group and the Bank as it is not relevant to the operations of the Group and the Bank. The initial application of the other standards, amendments and interpretations is not expected to have any material financial impact to the current and prior periods financial statements of the Group and the Bank upon their first adoption, except for those discussed below:-

MFRS 9, Financial Instruments
MFRS 9 replaces the guidance in MFRS 139: Financial Instruments, Recognition and Measurement on the classification and measurement of financial assets. Upon adoption of MFRS 9, financial assets will be measured at either fair value or amortised cost. The adoption of MFRS 9 will result in a change in accounting policy.

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 disclosed in their respective accounting policy notes:

- Trading assets and liabilities
- Financial investments
- Property and equipment
- Derivatives and Hedge Accounting

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of financial information in conformity with MFRSs requires management to make estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared.

Management believes that the Group and the Bank's critical accounting policies where judgement is necessarily applied are those which relate to impairment of loans, advances and financing and the valuation of financial instruments (see Note 5). There are no other significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed above.

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

(e) Change in accounting policies

(i) Impairment of collectively assessed loans, advances and financing

Prior to the transition to MFRS 139, the Group and the Bank had maintained their collective impairment provision at 1.5% of total outstanding loans, net of individual impairment provision, in line with BNM's transitional provisions under its Guidelines on Classification and Impairment Provisions for Loans/Financing. Upon the transition to MFRS 139 on 1 January 2012, these transitional provisions were removed and the Group and the Bank have applied the requirements of MFRS 139 in the determination of collective impairment provision, of which the full revised accounting policy is described in Note 3(m).

This change in accounting policy has been accounted for retrospectively and has resulted in a decrease in the collective allowance for impairment charged in the income statement and a writeback of collective allowance to the opening retained profits and opening collective allowance in the statements of financial position. A summary of the financial impact of the change in accounting policy on the financial statements of the Group and the Bank is reflected in Note 45.

(ii) Fair valuation of structured deposits

Prior to the transition to MFRS 139, derivatives embedded in structured deposits were bifurcated and marked to market separately from the deposits portion. After the transition to MFRS 139, the entire structured deposits are classified as "trading liabilities" and fair valued on a totality basis, as this is allowed under MFRS 139. This change in accounting policy has been accounted for retrospectively and a summary of the financial impact on the financial statements of the Group and the Bank is reflected in Note 45.

2 Basis of Preparation (Cont'd)

(e) Change in accounting policies (Cont'd)

iii) Contracts under Islamic Sell and Buyback Agreements ('SBBA') [applicable to the Islamic subsidiary, HSBC Amanah]

Prior to its convergence to the MFRS framework, the BNM Guidelines on Financial Reporting for Islamic Banking Institutions requires securities sold in a SBBA to be derecognised from the financial statements and the buy back commitment to be recognised as an off balance sheet liability. However, BNM recently issued a revised Guidance Note on SBBA that allows financial institutions to account for SBBA as per the approved accounting standards by the Malaysian Accounting Standards Board. With this, the securities sold via SBBA will no longer be derecognised from the financial statements and the buy-back commitment is now recognised as an on balance sheet liability. This change in accounting policy has been accounted for retrospectively and a summary of the financial impact on the financial statements of the Group is reflected in Note 45.

iv) Profit Equalisation Reserves (PER) [applicable to the Islamic subsidiary, HSBC Amanah]
PER refers to the amount appropriated out of total gross income in order to maintain an acceptable level of return to Mudharabah depositors as stipulated by BNM's "The Framework of Rate of Return". PER is a provision shared by both the depositors and HSBC Amanah.

During the financial period, as stipulated by BNM's "Guidelines on Profit Equalisation Reserve", effective 1 January 2012, PER has been segregated into the portion belonging to the depositors and HSBC Amanah based on the contractual profit sharing ratio. The portion belonging to the depositors continues to be recognised as other liabilities.

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 Bank. The financial statements of subsidiaries are included in the consolidated financial statements from the date the control commences, until the date the control ceases. Control exists when the Bank 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.

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.

Acquisitions on or after 1 January 2011
For acquisitions on or after 1 January 2011, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

3 Significant Accounting Policies (Cont'd)

(a) Basis of Consolidation (Cont'd)

ii) Accounting for business combinations (Cont'd)

For each business combination, the Group elects whether it measures the non-controlling interests in the acquirer either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than that related to the issuance of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

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 distribution. 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 associates, after adjustments, if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

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

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with a resulting gain or loss being recognized in profit and loss. Any retained interest in the former associate at the date when the significant influence is loss is re-measured at fair value and this amount is regarded as the initial carrying amount of a financial asset.

When the Group's interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not re-measured. Any gain or loss from the decrease in interest is recognized in profit or loss. Any gain or loss previously recognized in other comprehensive income are also reclassified proportionately to the profit or loss.

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 or distribution. The cost of the investment includes transaction costs.

iv) Jointly-controlled operations and assets

A jointly controlled operation is a joint venture carried on by each venture using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

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.

Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associates. Unrealised losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3 Significant Accounting Policies (Cont'd)

(b) Foreign Currency Transactions

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

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.

(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 of the Bank, 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 (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

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

Interest on impaired financial assets of the Bank is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expense of the Bank 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;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

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

3 Significant Accounting Policies (Cont'd)

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

Fee income is earned from a diverse range of services the Group and the Bank provide to their customers. Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed;
- income earned from the provision of services is recognised as revenue as the services are provided; and
- income which forms an integral part of the effective interest/profit rate of a financial instrument is recognised as an adjustment to the effective interest/profit rate and recorded in 'interest/finance income' (see Note 3 d).

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unlisted equity securities.

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

(f) Income tax expense

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. The Group and the Bank provide for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities. Current tax assets and liabilities are offset when the Group and the Bank intend to settle on a net basis and the legal right to offset exists.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the balance sheet date. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the Group and the Bank have a legal right to offset.

Deferred tax relating to share-based payment transactions is recognised directly in equity to the extent that the amount of the estimated future tax deduction exceeds the amount of the related cumulative remuneration expense. Deferred tax relating to fair value re-measurements of available-for-sale investments and cash flow hedging instruments which are charged or credited directly to other comprehensive income, is also charged or credited to other comprehensive income and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

3 Significant Accounting Policies (Cont'd)

(g) Financial instruments

i) Initial recognition and measurement

The Group and the Bank initially recognise loans, advances and financing, 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 its fair value plus, for a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

ii) Classification

The Group and the Bank classify their financial assets into one of the following categories:

- loans, advances and financing (See Note 3l)
- held to maturity (See Note 3k i)
- available-for-sale (See Note 3k ii); or
- trading assets (see Note 3j):

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

iii) Derecognition

Financial assets

The Group and the Bank derecognize a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Group and the Bank are recognized as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Group and the Bank enter into transactions whereby they transfer assets recognized on their statements of financial position, but retain either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, repurchase transactions.

In transactions in which the Group and the Bank neither retain, nor transfer substantially all the risks and rewards of ownership of a financial asset and they retain control over the asset, the Group and the Bank continue to recognize the asset to the extent of their continuing involvement, determined by the extent to which it is exposed to the changes in the value of the transferred asset.

Financial liabilities

The Group and the Bank derecognize a financial liability when their contractual obligations are discharged, cancelled, or expired.

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 statement of financial position when, and only when, the Group and the Bank have a legal right to set off the amounts and intends either to settle them on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under the MFRSs, or for gains and losses arising from a group of similar transactions such as in the Group and the Bank's trading activity.

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.

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

- known significant cash flow difficulties experienced by the borrower;
- an overdue contractual payment of principal or interest/profit 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;
- 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/financing fewer than 90 days past due;
- loans/financing 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 statement of cash flows, cash and cash equivalents comprise of cash at hand and bank balances, short term deposits and placements with banks 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 their 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.

The difference between the sale and repurchase price is treated as interest/profit and recognised over the life of the agreement.

3 Significant Accounting Policies (Cont'd)

(j) Trading assets and trading liabilities

Treasury bills, debt securities, equity securities, debt securities in issue, certain deposits and short positions in securities are classified as held for trading if they have been acquired or incurred principally for the purpose of selling or repurchasing in the near term, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. These financial assets or financial liabilities are recognised on trade date, when the Group and the Bank enter into contractual arrangements with counterparties to purchase or sell the financial instruments, and are normally derecognised when either sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs taken to the income statement. Subsequently, the fair values are remeasured, and gains and losses from changes therein are recognised in the income statement in 'Net trading income'.

(k) Financial investments

Treasury bills, debt securities and equity securities intended to be held on a continuing basis, other than those designated at fair value, are classified as available for sale or held to maturity. Financial investments are recognised on trade date when the Group and the Bank enter into contractual arrangements with counterparties to purchase securities, and are normally derecognised when either the securities are sold or the borrowers repay their obligations.

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.

For loans/financing 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/financing (outstanding amount of loans/financing 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/financing 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/financing, 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.

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/profit rates.

3 Significant Accounting Policies (Cont'd)

(k) Financial investments(Cont'd)

ii Available-for-sale (Cont'd)

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. The impairment methodologies for available-for-sale financial assets are set out in more detail below

- For available-for-sale debt securities, when assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, the Group and the Bank consider all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial reorganisation, or the disappearance of an active market for the debt security because of financial difficulties relating to the issuer. These types of specific event and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

- For available-for-sale equity securities, objective evidence of impairment for available-for sale equity securities may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered. A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

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

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

3 Significant Accounting Policies (Cont'd)

(k) Financial investments(Cont'd)

ii Available-for-sale (Cont'd)

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

(l) Loans, Advances and Financing

Loans, advances and financing include financing and advances that 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 MFRS 139 and Bank Negara Malaysia's "Guidelines on Classification and Impairment Provisions for Loans/Financing" issued on 1 January 2012. 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.

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.

Impairment of collectively assessed loans, advances and financing

Prior to the transition to MFRS 139, the Group and the Bank had maintained their collective impairment provision at 1.5% of total outstanding loans, net of individual impairment provision, in line with BNM's transitional provisions under its Guidelines on Classification and Impairment Provisions for Loans/Financing. Upon the transition to MFRS 139 on 1 January 2012, these transitional provisions were removed and the Group and the Bank have applied the requirements of MFRS 139 in the determination of collective impairment provision, of which the revised accounting policy is described below.

3 Significant Accounting Policies (Cont'd)

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

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

This change in accounting policy has been accounted for retrospectively and has resulted in a decrease in the collective allowance for impairment charged in the income statement and a writeback of collective allowance to the opening retained profits and opening collective allowance in the statement of financial position. A summary of the financial impact of the change in accounting policy on the financial statements of the Group and the Bank is reflected in Note 45.

Impairment is assessed on a collective basis in two circumstances:
– to cover losses which have been incurred but not yet been identified on loans/financing subject to individual assessment; and
– for homogeneous groups of loans/financing that are not considered individually significant.

Losses incurred but not yet identified on individually significant loans, advances and financing

Individually assessed loans/financing for which no evidence of impairment has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective impairment. These credit risk characteristics may include type of products offered, industry sector, credit characteristics or other relevant factors. As soon as information becomes available which identifies losses on individual loans/financing within the group, those loans/financing are removed from the group and assessed on an individual basis for impairment.

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

Homogeneous groups of loans/financing and advances

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans/financing that are not considered individually significant, because individual loan/financing assessment is impracticable. Losses in these groups of loans/financing are recorded on an individual basis only when individual loans/financing are written off, at which point they are removed from the group. Two alternative methods are used to calculate allowances on a collective basis:

When appropriate empirical information is available, roll rate methodology is applied. This methodology employs statistical analyses of historical data and experience of delinquency and default to estimate the amount of loans/financing that will eventually be written off as a result of the events occurring before the balance sheet date which the Group and the Bank are not able to identify on an individual loan/financing basis, and that can be reliably estimated. Under this methodology, loans/financing are grouped into ranges according to the number of days past due and statistical analysis is used to estimate the likelihood that loans/financing in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable. In addition to the delinquency groupings, loans/financing are segmented according to their credit characteristics as described above. Current economic conditions are also evaluated when calculating the appropriate level of allowance required to cover inherent loss.

When the portfolio size is small or when information is insufficient or not reliable enough to adopt a roll rate methodology, a basic formulaic approach based on historical loss rate experience is adopted.

3 Significant Accounting Policies (Cont'd)

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

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

In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio, though sometimes it provides less relevant information about the inherent loss in a given portfolio at the balance sheet date, for example, when there have been changes in economic, regulatory or behavioural conditions which result in the most recent trends in portfolio risk factors being not fully reflected in the statistical models. In these circumstances, the risk factors are taken into account by adjusting the impairment allowances derived solely from historical loss experience.

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

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.

(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 based on independent valuations 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. When the Group and the Bank are the lessees, the leased assets are not recognised in the statement of financial position of the Group or the Bank. Rentals payable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'General administrative expenses'.

(p) Intangible Assets

Intangible assets of the Group and the Bank represent computer software that have a finite useful life, and are stated at cost less accumulated amortisation and any accumulated impairment losses. Computer software includes both purchased and internally generated software. The cost of internally generated software comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred.

Amortisation of intangible assets is calculated to write off the cost of the intangible assets on a straight line basis over the estimated useful lives of 3 to 5 years. Intangible assets are subject to 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. At 31 December 2012, 31 December 2011 and 1 January 2011, the Bank does not have any outstanding recourse obligation on loans sold to Cagamas.

(s) Debt securities issued, subordinated liabilities and deposits by customers and banks

Financial liabilities are recognised when the Group and the Bank enter into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of financial liabilities, other than those measured at fair value through profit or loss and financial guarantees, is at amortised cost, using the effective interest method to amortise the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life of the instrument.

Subordinated bonds of the Bank are carried at face value, except for the portions 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.

The multi-currency sukuk issued by HSBC Amanah Malaysia Berhad, a subsidiary of the Bank during the year, is carried at amortised cost, with profit payable recognised on an accruals basis.

(t) Provisions

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

Contingent liabilities, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group and the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed (if there are any) unless the probability of settlement is remote.

(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.

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

3 Significant Accounting Policies (Cont'd)

(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.

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.

3 Significant Accounting Policies (Cont'd)

(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 Mudharabah 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.

(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 have a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

ii Defined contribution plan

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

(y) Share based payments

The Group and Bank enter into equity-settled share based payment arrangements with their 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.

3 Significant Accounting Policies (Cont'd)

(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.

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.

4 Financial risk management (Cont'd)

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 Asia Pacific Regional 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.
- rescheduled and restructured loan/financing.

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.

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

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, writeoff may be earlier.

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

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

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

Collateral held as security

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

The estimated fair value of collateral and other security enhancements held against impaired loans, advances and financing as at 31 December 2012 amounted to RM617.8 million (2011: RM527.8 million) for the Group and RM552.9 million (2011: RM499.7 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.

Concentration of credit risk

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

Financial assets held-for-trading

The Group and Bank hold financial assets held-for-trading of RM4.597 billion (2011: RM6.217 billion) and RM4.415 billion (2011: RM6.000 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.

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 2012		
Group	Loans, advances and financing to customers **RM'000**	Loans and advances to banks* **RM'000**	Investment Securities** **RM'000**
Carrying amount	**42,265,895**	**18,089,776**	**7,529,417**
Assets at amortised cost			
Individually impaired:			
Gross amount	**778,846**	-	-
Allowance for impairment	**(304,981)**	-	-
Carrying amount	**473,865**	-	-
Past due but not impaired:			
Carrying amount	**2,720,451**	-	-
Past due comprises:			
up to 29 days	**1,848,061**	-	-
30 - 59 days	**419,778**	-	-
60 - 89 days	**452,612**	-	-
	2,720,451	-	-
Neither past due nor impaired:			
Strong	**23,764,600**	**18,013,698**	-
Medium-good	**7,809,045**	**76,078**	-
Medium-satisfactory	**7,116,116**	-	-
Substandard	**783,259**	-	-
Carrying amount	**39,473,020**	**18,089,776**	-
of which includes accounts with renegotiated terms	***216,064***	-	-
Collective allowance for impairment	**(401,441)**	-	-
Carrying amount-amortised cost	**42,265,895**	**18,089,776**	-
Available-for-sale (AFS)			
Neither past due nor impaired:			
Strong	-	-	**7,214,318**
Medium-satisfactory	-	-	**315,099**
Carrying amount	-	-	**7,529,417**
Carrying amount-fair value	-	-	**7,529,417**

In addition to the above, the Group had entered into lending commitments of RM31.135 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 RM3.7 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 2012		
Bank	Loans, advances and financing to customers **RM'000**	Loans and advances to banks* **RM'000**	Investment Securities** **RM'000**
Carrying amount	**33,782,016**	**18,092,931**	**6,264,134**
Assets at amortised cost			
Individually impaired:			
Gross amount	**649,428**	**-**	**-**
Allowance for impairment	**(274,602)**	**-**	**-**
Carrying amount	**374,826**	**-**	**-**
Past due but not impaired:			
Carrying amount	**2,188,919**	**-**	**-**
Past due comprises:			
up to 29 days	**1,478,887**	**-**	**-**
30 - 59 days	**338,148**	**-**	**-**
60 - 89 days	**371,884**	**-**	**-**
	2,188,919	**-**	**-**
Neither past due nor individually impaired:			
Strong	**18,929,699**	**18,016,853**	**-**
Medium-good	**6,246,536**	**76,078**	**-**
Medium-satisfactory	**5,624,520**	**-**	**-**
Substandard	**674,104**	**-**	**-**
Carrying amount	**31,474,859**	**18,092,931**	**-**
of which includes accounts with renegotiated terms	***216,064***	**-**	**-**
Collective allowance for impairment	**(256,588)**	**-**	**-**
Carrying amount-amortised cost	**33,782,016**	**18,092,931**	**-**
Available-for-sale (AFS)			
Neither past due nor impaired:			
Strong	**-**	**-**	**5,949,035**
Medium-satisfactory	**-**	**-**	**315,099**
Carrying amount	**-**	**-**	**6,264,134**
Carrying amount-fair value	**-**	**-**	**6,264,134**

In addition to the above, the Bank had entered into lending commitments of RM26.958 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 RM2.9 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 2011		
Group	Loans, advances and financing to customers	Loans and advances to banks*	Investment Securities**
	RM'000	**RM'000**	**RM'000**
Carrying amount	**39,638,357**	**25,937,974**	**4,856,911**
Assets at amortised cost			
Individually impaired:			
Gross amount	**741,406**	-	-
Allowance for impairment	**(286,008)**	-	-
Carrying amount	**455,398**	-	-
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	**20,725,250**	**25,924,113**	-
Medium-good	**9,385,935**	**13,861**	-
Medium-satisfactory	**6,816,405**	-	-
Substandard	**516,935**	-	-
Carrying amount	**37,444,525**	**25,937,974**	-
of which includes accounts with renegotiated terms	***218,350***	-	-
Collective allowance for impairment	**(376,282)**	-	-
Carrying amount-amortised cost	**39,638,357**	**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**
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 2011		
Bank	Loans, advances and financing to customers **RM'000**	Loans and advances to banks* **RM'000**	Investment Securities** **RM'000**
Carrying amount	**31,853,209**	**27,662,299**	**4,434,825**
Assets at amortised cost			
Individually impaired:			
Gross amount	**615,718**	**-**	**-**
Allowance for impairment	**(253,025)**	**-**	**-**
Carrying amount	**362,693**	**-**	**-**
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	***187,488***	**-**	**-**
Collective allowance for impairment	**(271,097)**	**-**	**-**
Carrying amount-amortised cost	**31,853,209**	**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**
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)

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 is 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 2012		31 Dec 2011	
	RM'000	**RM'000**	RM'000	RM'000
Carrying amount	**18,089,776**	**7,529,417**	25,937,974	4,856,911
By Sector				
Finance, insurance and business services	**18,089,776**	**1,018,396**	25,937,974	2,354,526
Others	**-**	**6,511,021**	-	2,502,385
	18,089,776	**7,529,417**	25,937,974	4,856,911
By geographical location				
Within Malaysia	**15,873,122**	**7,529,417**	24,220,082	4,856,911
Outside Malaysia	**2,216,654**	**-**	1,717,892	-
	18,089,776	**7,529,417**	25,937,974	4,856,911

	Bank			
	Loans and advances to banks*	Investment Securities**	Loans and advances to banks*	Investment Securities**
	31 Dec 2012		31 Dec 2011	
	RM'000	**RM'000**	RM'000	RM'000
Carrying amount	**18,092,931**	**6,264,134**	27,662,299	4,434,825
By Sector				
Finance, insurance and business services	**18,092,931**	**969,765**	27,662,299	2,329,522
Others	**-**	**5,294,369**	-	2,105,303
	18,092,931	**6,264,134**	27,662,299	4,434,825
By geographical location				
Within Malaysia	**15,947,171**	**6,264,134**	25,983,953	4,434,825
Outside Malaysia	**2,145,760**	**-**	1,678,346	-
	18,092,931	**6,264,134**	27,662,299	4,434,825

* 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 to customers 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.
- managing the maturities and diversify secured and unsecured funding liabilities across markets, products and counterparties.
- maintaining 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)	On Demand	Due within 3 months	Due between 3 months to 12 months	Due between 1 and 5 years	Due after 5 years
At 31 Dec 2012					
Non-derivative liabilities					
Deposits from customers	**30,623,727**	**20,186,520**	**8,695,247**	**786,795**	**-**
Deposits and placements of banks and other financial institutions	**1,980,147**	**4,090,178**	**81,740**	**5,526**	**4,264**
Bills and acceptances payable	**497,401**	**6,948**	**-**	**-**	**-**
Other liabilities	**1,133,436**	**743,870**	**-**	**-**	**-**
Multi Currency Sukuk Programme	**-**	**-**	**-**	**589,063**	**-**
Subordinated Bonds	**-**	**11,750**	**35,250**	**688,000**	**907,966**
Loans and other credit-related commitments	**21,434,095**	**4,109,256**	**7,475,823**	**1,367,814**	**-**
Financial guarantees and similiar contracts	**1,851,279**	**508,236**	**639,004**	**711,536**	**55**
	57,520,085	**29,656,759**	**16,927,064**	**4,148,733**	**912,285**
Derivative liabilities					
Outflow	**-**	**(1,942)**	**(40,034)**	**(92,367)**	**(1,216,484)**
Inflow	**-**	**2,364**	**42,629**	**95,554**	**1,616,085**
	-	**422**	**2,595**	**3,187**	**399,601**

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

Bank (RM'000)	On Demand	Due within 3 months	Due between 3 months to 12 months	Due between 1 and 5 years	Due after 5 years
At 31 Dec 2012					
Non-derivative liabilities					
Deposits from customers	**27,430,176**	**15,833,727**	**7,581,833**	**742,297**	**-**
Deposits and placements of banks and other financial institutions	**1,970,372**	**3,990,178**	**54,974**	**4,915**	**4,264**
Bills and acceptances payable	**481,975**	**6,948**	**-**	**-**	**-**
Other Liabilities	**1,136,948**	**707,346**	**-**	**-**	**-**
Subordinated Bonds	**-**	**11,750**	**35,250**	**688,000**	**907,966**
Loans and other credit-related commitments	**19,244,001**	**3,714,210**	**5,480,756**	**810,429**	**-**
Financial guarantees and similiar contracts	**1,170,352**	**490,849**	**622,239**	**661,998**	**55**
	51,433,824	**24,755,009**	**13,775,053**	**2,907,639**	**912,285**
Derivative liabilities					
Outflow	**-**	**(1,942)**	**(40,034)**	**(92,367)**	**(1,216,484)**
Inflow	**-**	**2,364**	**42,629**	**95,554**	**1,616,085**
	-	**422**	**2,595**	**3,187**	**399,601**

4 Financial risk management (Cont'd)

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

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

Group (RM'000)	On Demand	Due within 3 months	Due between 3 months to 12 months	Due between 1 and 5 years	Due after 5 years
At 31 Dec 2011					
Non-derivative liabilities					
Deposits from customers	27,155,819	22,980,879	6,548,505	2,478,373	-
Deposits and placements of 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	2,997,576	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 similiar contracts	1,975,976	437,302	624,633	1,181,956	1,388
	60,451,985	30,977,770	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)	On Demand	Due within 3 months	Due between 3 months to 12 months	Due between 1 and 5 years	Due after 5 years
At 31 Dec 2011					
Non-derivative liabilities					
Deposits from customers	25,273,512	19,930,677	5,792,242	2,461,694	-
Deposits and placements of 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	3,069,874	719,612	-	-	-
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 similiar contracts	1,524,753	424,801	577,752	1,102,773	1,388
	55,840,802	26,883,402	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)

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 Regional Wholesale and Global Market Risk Management (WMR), an independent unit which develops HSBC Group's market risk management policies and measurement techniques. Market risks which arise on each product are transferred to either the Global Markets 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 WMR. Positions are monitored daily and excesses against the prescribed limits are reported immediately to local senior management and WMR. The nature of the hedging and risk mitigation strategies 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 2012	Average	Maximum	Minimum
Foreign currency risk	**323**	**709**	**3,688**	**25**
Interest rate risk	**6,356**	**5,047**	**7,437**	**2,973**
Credit spread risk	**1,391**	**1,751**	**6,206**	**270**
Overall	**6,406**	**5,320**	**8,433**	**2,795**
HSBC Amanah Malaysia Berhad (RM'000)	**At 31 Dec 2012**	**Average**	**Maximum**	**Minimum**
Foreign currency risk	**22**	**59**	**414**	**5**
Profit rate risk	**96**	**138**	**251**	**90**
Overall	**87**	**352**	**999**	**87**

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
Profit rate risk	233	263	664	104
Credit spread risk	-	8	154	-
Overall	237	268	712	108

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 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 WMR. The net exposure is monitored against the limits granted by regional WMR for the respective portfolios and, depending on the view on future market movement, economically hedged with the use of financial instruments within agreed limits.

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

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-12	31-Dec-11
	RM'000	RM'000
+100 basis points parallel shift in yield curves	**185,685**	217,716
-100 basis points parallel shift in yield curves	**(177,200)**	(211,270)
+25 basis points at the beginning of each quarter	**139,944**	150,892
-25 basis points at the beginning of each quarter	**(135,610)**	(148,716)

Change in projected net interest income in next 12 months arising from a shift in interest rates of:	Bank	
	31-Dec-12	31-Dec-11
	RM'000	RM'000
+100 basis points parallel shift in yield curves	**169,583**	211,430
-100 basis points parallel shift in yield curves	**(161,760)**	(204,402)
+25 basis points at the beginning of each quarter	**132,207**	146,404
-25 basis points at the beginning of each quarter	**(127,889)**	(143,952)

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-12	31-Dec-11
	RM'000	RM'000
+100 basis points parallel shift in yield curves	**(141,429)**	(88,574)
-100 basis points parallel shift in yield curves	**141,429**	88,574

	Bank	
	31-Dec-12	31-Dec-11
	RM'000	RM'000
+100 basis points parallel shift in yield curves	**(104,238)**	(83,593)
-100 basis points parallel shift in yield curves	**104,238**	83,593

Foreign exchange risk
Foreign exchange risk arises as a result of movements in the relative value of currencies. In addition to VAR and stress testing, the Group and the Bank 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 and the Bank 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 and the Bank 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 Global 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, 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 Bank adopts the Standardised approach for Credit, Operational and Market Risk in its trading portfolios. Its fully owned subsidiary, HSBC Amanah Malaysia Berhad, adopts the the Standardised approach for Credit and Market Risk in its trading portfolios, and Basic Indicator Approach for Operational Risk. Please refer to Note 37 to the financial statements for the Group and the Bank's regulatory capital position under Basel II 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 collective 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

f) Capital management (Cont'd)

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 3(m) 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 3(g)(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,

5 Use of estimates and judgements (Cont'd)

f) Capital management (Cont'd)

and the fair values of most financial instruments will be based on some market observable inputs even where the unobservable inputs are significant.

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:-

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Group (RM'000)				
Financial Assets Held-for-Trading (Note 8)	**2,600,631**	**1,996,476**	**-**	**4,597,107**
Financial Investments Available-for-Sale* (Note 9)	**5,903,184**	**1,626,233**	**-**	**7,529,417**
Derivative financial assets (Note 12)	**1,161**	**1,046,549**	**32,278**	**1,079,988**
Other trading assets **	**-**	**764,670**	**-**	**764,670**
	8,504,976	**5,433,928**	**32,278**	**13,971,182**
Trading liabilities***	**232,875**	**3,609,738**	**1,561,993**	**5,404,606**
Derivative financial liabilities (Note 21)	**3,065**	**768,577**	**10,029**	**781,671**
	235,940	**4,378,315**	**1,572,022**	**6,186,277**
Bank (RM'000)				
Financial Assets Held-for-Trading (Note 8)	**2,600,631**	**1,813,967**	**-**	**4,414,598**
Financial Investments Available-for-Sale* (Note 9)	**4,661,532**	**1,602,602**	**-**	**6,264,134**
Derivative financial assets (Note 12)	**1,161**	**1,078,969**	**34,736**	**1,114,866**
Other trading assets**	**-**	**764,670**	**-**	**764,670**
	7,263,324	**5,260,208**	**34,736**	**12,558,268**
Trading liabilities***	**232,875**	**2,668,997**	**1,316,816**	**4,218,688**
Derivative financial liabilities (Note 21)	**3,064**	**776,913**	**12,519**	**792,496**
	235,939	**3,445,910**	**1,329,335**	**5,011,184**

** 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.*

*** Other trading assets are reverse repurchase agreements classified as trading that form part of the balance reported under Note 12 (Other Assets).*

**** Trading liabilities consist of structured deposits, negotiable instruments of deposits classified as trading, net short position in securities and settlement accounts classified as held for trading. Structured deposits and negotiable instruments of deposits form part of the balance reported under Note 19 (Deposits from customers) while short position in securities and settlement accounts classified as held for trading form part of the balance reported under Note 21 (Other Liabilities).*

5 Use of estimates and judgements (Cont'd)

f) Capital management (Cont'd)

ii) Valuation of financial instruments (Cont'd)

	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	1,203,542	62,909	1,268,968
	5,836,561	6,443,647	62,909	12,343,116
Trading liabilities**	310,987	2,361,935	2,026,925	4,699,847
Derivative financial liabilities (Note 21)	7,318	990,639	4,289	1,002,246
	318,305	3,352,574	2,031,214	5,702,093
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	1,198,622	62,636	1,263,775
	5,197,758	6,438,727	62,636	11,699,121
Trading liabilities**	310,987	2,207,747	1,984,011	4,502,745
Derivative financial liabilities (Note 21)	7,318	999,104	4,289	1,010,711
	318,305	3,206,851	1,988,300	5,513,456

** 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.*

*** Trading liabilities consist of structured deposits, negotiable instruments of deposits classified as trading, net short position in securities and settlement accounts classified as held for trading. Structured deposits and negotiable instruments of deposits form part of the balance reported under Note 19 (Deposits from customers) while short position in securities and settlement accounts classified as held for trading form part of the balance reported under Note 21 (Other Liabilities).*

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:

	2012			2011		
	Derivative financial assets	**Derivative financial liabilities**	**Trading Liabilities**	Derivative financial assets	Derivative financial liabilities	Trading Liabilities
Group (RM'000)						
Balance at 1 January	**62,909**	**4,289**	**2,026,925**	34,963	13,402	1,328,831
Total gains or losses:						
-in profit or loss	**(21,749)^**	**10,831^**	**41,230^**	35,418^^	2,082^	25,818^
- in OCI#	**-**	**-**	**(6,415)**	-	-	8,420
Issues	**-**	**-**	**80,540**	-	-	103,443
Settlements	**(1,792)**	**(2,645)**	**(381,884)**	214	(2,882)	663,252
Transfers into Level 3	**399**	**-**	**41,655**	3,595	-	95,830
Transfer out of Level 3	**(7,489)**	**(2,446)**	**(240,058)**	(11,281)	(8,313)	(198,669)
Balance at 31 December	**32,278**	**10,029**	**1,561,993**	62,909	4,289	2,026,925

^ Denotes losses in the Profit or Loss
^^ Denotes gains in the Profit or Loss
\# OCI = Other Comprehensive Income

5 Use of estimates and judgements (Cont'd)

f) Capital management (Cont'd)

ii) Valuation of financial instruments (Cont'd)

	2012			2011		
	Derivative financial assets	**Derivative financial liabilities**	**Trading Liabilities**	Derivative financial assets	Derivative financial liabilities	Trading Liabilities
Bank (RM'000)						
Balance at 1 January	**62,636**	**4,289**	**1,984,011**	29,909	13,402	1,283,185
Total gains or losses:						
-in profit or loss	**(19,018)^**	**13,321^**	**42,357^**	36,372^^	2,082^	29,353^
- in OCI#	**-**	**-**	**(6,415)**	-	-	8,420
Issues	**-**	**-**	**34,992**	-	-	103,443
Settlements	**(1,792)**	**(2,645)**	**(539,726)**	214	(2,882)	637,834
Transfers into Level 3	**399**	**-**	**41,655**	3,595	-	95,830
Transfer out of Level 3	**(7,489)**	**(2,446)**	**(240,058)**	(7,454)	(8,313)	(174,054)
Balance at 31 December	**34,736**	**12,519**	**1,316,816**	62,636	4,289	1,984,011

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:-

2012 **Group (RM'000)**	**Derivative financial assets**	**Derivative financial liabilities**	**Trading liabilities**
Total gains or losses included in profit or loss for the year ended:			
-Net trading income	**(18,468)^**	**839^**	**(2,832)^^**
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	**(3,281)^**	**9,992^**	**44,062^**
2012 **Bank (RM'000)**	**Derivative financial assets**	**Derivative financial liabilities**	**Trading liabilities**
Total gains or losses included in profit or loss for the year ended:			
-Net trading income	**(18,468)^**	**839^**	**(2,832)^^**
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	**(550)^**	**12,482^**	**45,189^**

^ Denotes losses in the Profit or Loss
^^ Denotes gains in the Profit or Loss
# OCI = Other Comprehensive Income

5 Use of estimates and judgements (Cont'd)

f) Capital management (Cont'd)

ii) Valuation of financial instruments (Cont'd)

2011 **Group (RM'000)**	Derivative financial assets	Derivative financial liabilities	Trading liabilities
Total gains or losses included in profit or loss for the year ended:			
-Net trading income	435^^	7,073^	3,659^
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	34,983^^	(4,991)^^	22,159^

2011 **Bank (RM'000)**	Derivative financial assets	Derivative financial liabilities	Trading liabilities
Total gains or losses included in profit or loss for the year ended:			
-Net trading income	1,080^^	7,073^	4,167^
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	35,292^^	(4,991)^^	25,186^

^ Denotes losses in the Profit or Loss
^^ Denotes gains in the Profit or Loss
# OCI = Other Comprehensive Income

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:

	2012		2011	
	Effect on profit or loss		Effect on profit or loss	
	Favourable	**(Unfavourable)**	Favourable	(Unfavourable)
Group (RM'000)				
Derivative financial assets	**4,020**	**(4,020)**	9,535	(9,535)
Derivative financial liabilities	**2,738**	**(2,738)**	1,747	(1,747)
	6,758	**(6,758)**	11,282	(11,282)

6 Cash and Short Term Funds

	Group			Bank		
	31 Dec 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
	RM'000	RM'000	RM'000	**RM'000**	RM'000	RM'000
Cash and balances with banks and other financial institutions	**2,671,894**	5,036,115	1,998,438	**2,521,508**	4,922,703	1,970,221
Money at call and deposit placements maturing within one month	**9,991,543**	16,567,112	9,817,166	**8,492,609**	15,369,569	8,688,639
	12,663,437	21,603,227	11,815,604	**11,014,117**	20,292,272	10,658,860

7 Deposits and Placements with Banks and Other Financial Institutions

	Group			Bank		
	31 Dec 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
	RM'000	RM'000	RM'000	**RM'000**	RM'000	RM'000
Licensed banks	**-**	206,958	-	**1,652,475**	3,242,238	1,140,834
Bank Negara Malaysia	**2,500,000**	-	200,000	**2,500,000**	-	200,000
Other financial institutions	**492,993**	444,820	130,981	**492,993**	444,820	130,981
	2,992,993	651,778	330,981	**4,645,468**	3,687,058	1,471,815

8 Financial Assets Held-for-Trading

	Group			Bank		
	31 Dec 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
At fair value	**RM'000**	RM'000	RM'000	**RM'000**	RM'000	RM'000
Money market instruments:						
Malaysian Government treasury bills	**811,410**	457,224	667,045	**628,901**	457,224	602,685
Bank Negara Malaysia bills and notes	**641,602**	3,995,371	1,918,290	**641,602**	3,995,371	1,918,290
Bank Negara Malaysia Islamic bills	**543,464**	9,189	587,127	**543,464**	9,189	587,127
Malaysian Government securities	**1,988,396**	1,175,581	1,178,902	**1,988,396**	1,175,581	1,178,902
Malaysian Government Islamic bonds	**323,271**	291,877	131,110	**323,271**	75,161	72,558
Cagamas bonds and notes	**2,502**	21,751	3,332	**2,502**	21,751	3,332
	4,310,645	5,950,993	4,485,806	**4,128,136**	5,734,277	4,362,894
Unquoted securities:						
Private debt securities	**286,462**	266,244	409,254	**286,462**	266,244	384,160
(including commercial paper)	**4,597,107**	6,217,237	4,895,060	**4,414,598**	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 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
Money market instruments:	**RM'000**	RM'000	RM'000	**RM'000**	RM'000	RM'000
Malaysian Government treasury bills						
AA+ to AA-	**811,410**	457,224	667,045	**628,901**	457,224	602,685
Bank Negara Malaysia bills and notes						
AA+ to AA-	**641,602**	3,995,371	1,918,290	**641,602**	3,995,371	1,918,290
Bank Negara Malaysia Islamic bills						
AA+ to AA-	**543,464**	9,189	587,127	**543,464**	9,189	587,127
Malaysian Government securities						
AA+ to AA-	**1,988,396**	1,175,581	1,178,902	**1,988,396**	1,175,581	1,178,902
Malaysian Government Islamic bonds						
AA+ to AA-	**323,271**	291,877	131,110	**323,271**	75,161	72,558
Cagamas bonds and notes						
Unrated	**2,502**	21,751	3,332	**2,502**	21,751	3,332
Unquoted securities:						
Private debt securities						
(including commercial paper)						
AA+ to AA-	**-**	-	101,348	**-**	-	101,348
A+ to A-	**21,528**	11,001	5,113	**21,528**	11,001	5,113
BBB+ to BBB-	**12,664**	22,907	-	**12,664**	22,907	-
Unrated	**252,270**	232,336	302,793	**252,270**	232,336	277,699
	4,597,107	6,217,237	4,895,060	**4,414,598**	6,000,521	4,747,054

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

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9 Financial Investments Available-for-Sale

	Group			Bank		
	31 Dec 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
At fair value	**RM'000**	RM'000	RM'000	**RM'000**	RM'000	RM'000
Money market instruments:						
Malaysian Government treasury bills	**29,202**	-	98,704	**29,202**	-	98,704
Bank Negara Malaysia bills and notes	**56,871**	-	-	**56,871**	-	-
Bank Negara Malaysia Islamic bills	**652,556**	-	-	**652,556**	-	-
Malaysian Government securities	**1,788,709**	990,871	933,468	**1,788,709**	990,871	933,468
Malaysian Government Islamic bonds	**3,948,055**	1,511,514	664,725	**2,731,404**	1,114,432	368,564
Bank Negara Islamic bonds	**35,627**	-		**35,627**	-	-
Cagamas bonds and notes	**45,320**	45,499	65,844	**45,320**	45,499	65,844
Negotiable instruments of deposit	**85,003**	1,530,235	375,029	**60,002**	1,505,231	345,027
Bankers' acceptance and Islamic accepted bills	**887,604**	778,321	1,233,033	**863,973**	778,321	1,228,531
	7,528,947	4,856,440	3,370,803	**6,263,664**	4,434,354	3,040,138
Quoted securities:						
Shares	**-**	-	10,696	**-**	-	10,696
Unquoted securities:						
Shares*	**16,907**	16,907	16,907	**16,907**	16,907	16,907
Private and Islamic debt securities	**471**	471	5,499	**471**	471	5,499
	17,378	17,378	22,406	**17,378**	17,378	22,406
Impairment loss: Quoted Securities	**-**	-	(3,815)	**-**	-	(3,815)
	7,546,325	4,873,818	3,400,090	**6,281,042**	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		
Maturing within one year	**2,142,323**	2,509,610	2,068,706	**1,838,418**	2,303,594	2,034,202
More than one year to three years	**2,976,974**	1,356,248	607,366	**2,645,173**	1,140,178	311,205
More than three years to five years	**1,640,606**	778,983	487,064	**1,495,194**	778,983	487,064
Over five years	**769,044**	211,599	207,667	**284,879**	211,599	207,667
	7,528,947	4,856,440	3,370,803	**6,263,664**	4,434,354	3,040,138

10 Loans, Advances and Financing

(i) By type

	Group			Bank		
	31 Dec 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
At amortised cost	**RM'000**	RM'000	RM'000	**RM'000**	RM'000	RM'000
Overdrafts	**1,282,760**	1,258,278	1,196,751	**1,220,023**	1,208,525	1,182,249
Term loans/ financing						
Housing loans/ financing	**14,601,065**	13,326,278	11,394,601	**12,504,747**	12,053,927	10,934,428
Syndicated term loans/ financing	**67,372**	77,188	83,345	**67,372**	77,188	83,345
Factoring receivables	**157,134**	107,032	68,903	**157,134**	107,032	68,903
Hire purchase receivables	**296,825**	258,817	177,462	**184**	183	1,081
Lease receivables	**3,219**	942	2,807	**-**	813	2,620
Other term loans/ financing*	**12,453,945**	11,341,894	9,416,156	**7,741,682**	6,712,714	6,281,513
Bills receivable	**3,294,693**	2,906,337	2,691,106	**3,294,693**	2,906,337	2,691,106
Trust receipts	**1,229,690**	1,630,471	984,483	**1,180,473**	1,605,334	983,779
Claims on customers under acceptance credits	**2,990,604**	3,280,911	3,272,865	**2,126,056**	2,033,632	2,367,254
Staff loans/ financing	**401,676**	405,273	398,694	**360,603**	384,895	389,362
Credit/ charge cards	**2,884,343**	2,937,361	2,838,223	**2,441,572**	2,571,414	2,576,706
Revolving credit	**3,420,408**	2,874,906	2,654,619	**3,208,787**	2,706,180	2,654,619
Other loans/ financing	**9,880**	9,157	8,703	**9,880**	9,157	8,703
Less: Unearned income	**(121,297)**	(114,198)	(66,727)	**-**	-	-
Gross loans, advances and financing	**42,972,317**	40,300,647	35,121,991	**34,313,206**	32,377,331	30,225,668
Less: Allowances for impaired loans, advances and financing						
- Collectively assessed	**(401,441)**	(376,282)	(338,707)	**(256,588)**	(271,097)	(259,863)
- Individually assessed	**(304,981)**	(286,008)	(309,175)	**(274,602)**	(253,025)	(293,599)
Total net loans, advances and financing	**42,265,895**	39,638,357	34,474,109	**33,782,016**	31,853,209	29,672,206

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10 Loans, Advances and Financing (Cont'd)

(i) By type (Cont'd)

* Included in the loans, advances and financing of the Group and Bank at 31 December 2012 is a Profit Sharing Investment Account Type 2 (PSIA2) balance amounting to RM632.21m (2011: Nil , 2010: Nil).

The PSIA 2 was implemented in 2012 in accordance with the requirements of the BNM Guideline on Recognition and Measurement of PSIA as Risk Absorbent. The accounts under the PSIA2 are classified as "Assets Under Management" in the books of the Bank's fully owned subsidiary, HSBC Amanah Malaysia Berhad. The balance of RM632.21m is fully performing, and no allowance for impaired loans, advances and financing is recognised on it.

(ii) By type of customer

	Group			*Bank*		
	31 Dec 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
	RM'000	RM'000	RM'000	**RM'000**	RM'000	RM'000
Domestic non-bank financial institutions						
Stockbroking companies	**-**	143,155	152,941	**-**	143,155	152,941
Others	**93,237**	262	355	**93,237**	262	277
Domestic business enterprises						
Small medium enterprises	**8,239,265**	7,829,423	6,085,159	**6,526,613**	5,964,674	5,003,898
Others	**10,399,494**	10,693,793	9,540,130	**7,980,962**	8,291,558	7,969,106
Government and statutory bodies	**20,193**	25,086	25,443	**-**	-	-
Individuals	**20,276,460**	19,337,138	17,187,695	**16,238,628**	16,119,971	15,218,354
Other domestic entities	**8,306**	9,847	10,253	**6,658**	6,913	6,639
Foreign entities	**3,935,362**	2,261,943	2,120,015	**3,467,108**	1,850,798	1,874,453
	42,972,317	40,300,647	35,121,991	**34,313,206**	32,377,331	30,225,668

(iii) By residual contractual maturity

	Group			*Bank*		
	31 Dec 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
	RM'000	RM'000	RM'000	**RM'000**	RM'000	RM'000
Maturity within one year	**18,771,716**	17,872,726	17,830,251	**15,002,564**	13,803,316	15,199,183
More than one year to three years	**1,865,327**	1,666,401	1,837,382	**1,239,273**	992,216	1,198,346
More than three years to five years	**2,522,173**	3,102,649	1,965,029	**1,757,069**	1,928,864	1,029,074
More than five years	**19,813,101**	17,658,871	13,489,329	**16,314,300**	15,652,935	12,799,065
	42,972,317	40,300,647	35,121,991	**34,313,206**	32,377,331	30,225,668

(iv) By interest/ profit rate sensitivity

	Group			*Bank*		
	31 Dec 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
	RM'000	RM'000	RM'000	**RM'000**	RM'000	RM'000
Fixed rate						
Housing loans/ financing	**163,075**	193,847	218,546	**152,748**	179,035	197,028
Hire purchase receivables	**269,701**	234,608	162,816	**184**	183	1,081
Other fixed rate loans/ financing	**4,628,448**	5,431,232	5,389,160	**2,267,770**	2,161,955	2,524,123
Variable rate						
BLR/BFR plus	**31,817,963**	28,797,419	23,858,627	**26,242,145**	24,758,564	22,272,111
Cost-plus	**3,208,787**	2,706,180	2,654,619	**3,208,787**	2,706,180	2,654,619
Other variable rates	**2,884,343**	2,937,361	2,838,223	**2,441,572**	2,571,414	2,576,706
	42,972,317	40,300,647	35,121,991	**34,313,206**	32,377,331	30,225,668

10 Loans, Advances and Financing (Cont'd)

(v) By sector

	Group			*Bank*		
	31 Dec 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
	RM'000	RM'000	RM'000	**RM'000**	RM'000	RM'000
Agricultural, hunting, forestry and fishing	**2,176,877**	1,672,328	1,091,735	**1,634,240**	1,176,982	993,947
Mining and quarrying	**474,355**	463,272	374,771	**323,128**	305,216	236,627
Manufacturing	**7,036,938**	7,295,730	7,206,783	**5,783,512**	5,659,143	6,030,757
Electricity, gas and water	**130,039**	415,027	196,652	**29,194**	332,674	181,399
Construction	**1,391,559**	1,099,623	862,553	**1,136,318**	829,478	771,815
Real estate	**1,779,334**	1,617,888	1,257,425	**1,250,039**	1,223,834	933,687
Wholesale & retail trade and restaurants & hotels	**2,861,976**	2,554,154	2,094,419	**2,247,830**	2,122,378	1,819,014
Transport, storage and communication	**502,279**	576,122	447,640	**217,321**	166,566	213,563
Finance, insurance and business services	**2,055,058**	1,427,744	1,457,726	**1,825,814**	1,244,628	1,220,693
Household-retail	**22,047,654**	20,701,268	18,230,265	**17,690,716**	17,340,725	16,229,546
Others	**2,516,248**	2,477,491	1,902,022	**2,175,094**	1,975,707	1,594,620
	42,972,317	40,300,647	35,121,991	**34,313,206**	32,377,331	30,225,668

(vi) By purpose

	Group			*Bank*		
	31 Dec 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
	RM'000	RM'000	RM'000	**RM'000**	RM'000	RM'000
Purchase of landed property:						
-Residential	**14,820,899**	13,672,770	11,771,923	**12,854,809**	12,418,600	11,316,312
-Non residential	**1,304,992**	1,438,326	1,399,753	**1,230,965**	1,375,324	1,374,284
Purchase of securities	**11,835**	23,097	31,626	**11,835**	23,097	30,607
Purchase of transport vehicles	**40,029**	45,028	46,757	**38,542**	43,450	45,293
Purchase of fixed assets excluding land & building	**49,562**	57,469	76,779	**-**	-	-
Consumption credit	**6,744,514**	6,463,263	5,895,473	**4,357,008**	4,360,413	4,353,929
Construction	**1,391,559**	1,086,318	852,605	**1,136,318**	829,478	771,815
Working capital	**16,415,895**	16,572,232	13,926,826	**12,661,686**	12,680,525	11,456,267
Other purpose	**2,193,032**	942,144	1,120,249	**2,022,043**	646,444	877,161
	42,972,317	40,300,647	35,121,991	**34,313,206**	32,377,331	30,225,668

(vii) By geographical distribution

	Group			*Bank*		
	31 Dec 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
	RM'000	RM'000	RM'000	**RM'000**	RM'000	RM'000
Northern region	**7,254,377**	7,277,659	6,764,937	**5,611,567**	5,778,787	5,748,276
Southern region	**5,727,967**	5,609,189	4,515,704	**4,406,325**	4,470,395	3,979,936
Central region	**24,484,496**	22,232,951	19,683,706	**19,401,739**	17,791,871	16,788,288
Eastern region	**5,505,477**	5,180,848	4,157,644	**4,893,575**	4,336,278	3,709,168
	42,972,317	40,300,647	35,121,991	**34,313,206**	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 state of Selangor and the Federal Territory of Kuala Lumpur.
The Eastern region consists of the states of Sabah, Sarawak and the Federal Territory of Labuan.

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 2012	31 Dec 2011	**31 Dec 2012**	31 Dec 2011
	RM'000	RM'000	**RM'000**	RM'000
At beginning of year	**741,406**	692,481	**615,718**	621,671
Classified as impaired during the year	**928,022**	717,773	**697,321**	548,073
Reclassified as performing	**(294,200)**	(197,762)	**(270,485)**	(197,270)
Amount recovered	**(313,491)**	(230,121)	**(248,137)**	(189,795)
Amount written off	**(298,767)**	(269,229)	**(182,281)**	(185,938)
Other movements	**15,876**	28,264	**37,292**	18,977
At end of year	**778,846**	741,406	**649,428**	615,718
Individual allowance for impairment	**(304,981)**	(286,008)	**(274,602)**	(253,025)
Collective allowance for impairment (impaired portion)	**(108,362)**	(89,326)	**(51,236)**	(45,364)
Net impaired loans, advances and financing	**365,503**	366,072	**323,590**	317,329

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

	Group		*Bank*	
Collective allowance for impairment	**31 Dec 2012**	31 Dec 2011	**31 Dec 2012**	31 Dec 2011
	RM'000	RM'000	**RM'000**	RM'000
At beginning of year	**376,282**	519,055	**271,097**	448,400
-Effect of transition to MFRS [Note 45 iv) a]	**-**	(180,348)	**-**	(188,537)
At beginning of year, MFRS	**376,282**	338,707	**271,097**	259,863
Made during the year	**331,860**	259,310	**171,940**	154,626
Amount released	**(51,111)**	(41,680)	**(44,467)**	(36,245)
Amount written off	**(254,581)**	(179,624)	**(143,625)**	(107,092)
Discount unwind	**(1,009)**	(431)	**(1,027)**	(55)
Other movements	**-**	-	**2,670**	-
At end of year	**401,441**	376,282	**256,588**	271,097

	Group		*Bank*	
	31 Dec 2012	31 Dec 2011	**31 Dec 2012**	31 Dec 2011
	RM'000	RM'000	**RM'000**	RM'000
Individual allowance for impairment				
At beginning of year	**286,008**	379,358	**253,025**	337,500
-Effect of transition to MFRS [Note 45 iv) a]	**-**	(70,183)	**-**	(43,901)
At beginning of year, MFRS	**286,008**	309,175	**253,025**	293,599
Made during the year	**87,608**	51,838	**55,520**	38,440
Amount released	**(58,868)**	(54,512)	**(40,815)**	(52,024)
Amount written off	**(28,241)**	(46,883)	**(26,871)**	(43,787)
Discount unwind	**(1,997)**	(2,206)	**(1,414)**	(2,512)
Other movements	**20,471**	28,596	**35,157**	19,309
At end of year	**304,981**	286,008	**274,602**	253,025

(iii) By sector

	Group			*Bank*		
	31 Dec 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
	RM'000	RM'000	RM'000	**RM'000**	RM'000	RM'000
Agricultural, hunting, forestry and fishing	**1,503**	864	1,185	**1,419**	864	1,185
Mining and quarrying	**1**	-	-	**1**	-	-
Manufacturing	**111,307**	109,995	122,760	**103,713**	100,927	119,831
Construction	**3,391**	1,128	4,703	**3,391**	1,128	4,703
Real estate	**16,222**	87	8,590	**16,222**	87	8,590
Wholesale & retail trade, restaurants & hotels	**56,390**	53,599	67,537	**49,477**	49,318	62,291
Transport, storage and communication	**6,510**	8,946	10,940	**5,681**	8,946	10,860
Finance, insurance and business services	**730**	2,578	3,635	**310**	2,578	2,950
Household-retail	**581,272**	563,964	472,908	**467,694**	451,625	411,038
Others	**1,520**	245	223	**1,520**	245	223
	778,846	741,406	692,481	**649,428**	615,718	621,671

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

(iv) By purpose

	Group			*Bank*		
	31 Dec 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
	RM'000	RM'000	RM'000	**RM'000**	RM'000	RM'000
Purchase of landed property:						
-Residential	**303,912**	257,490	222,778	**258,473**	238,458	220,560
-Non residential	**39,053**	33,009	35,713	**38,945**	32,898	35,602
Purchase of securities	**-**	-	29	**-**	-	29
Purchase of transport vehicles	**157**	187	166	**97**	184	166
Consumption credit	**264,825**	296,242	239,632	**196,746**	202,938	179,980
Construction	**3,391**	1,128	4,703	**3,391**	1,128	4,703
Working capital	**166,822**	153,022	189,460	**151,776**	140,112	180,631
Other purpose	**686**	328	-	**-**	-	-
	778,846	741,406	692,481	**649,428**	615,718	621,671

(v) By geographical distribution

	Group			*Bank*		
	31 Dec 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
	RM'000	RM'000	RM'000	**RM'000**	RM'000	RM'000
Northern region	**174,650**	180,199	150,506	**138,019**	148,177	131,287
Southern region	**215,342**	181,464	176,563	**185,236**	158,407	163,698
Central region	**305,716**	289,131	270,384	**248,679**	224,996	238,703
Eastern region	**83,138**	90,612	95,028	**77,494**	84,138	87,983
	778,846	741,406	692,481	**649,428**	615,718	621,671

12 Other Assets

	Group			*Bank*		
	31 Dec 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
	RM'000	RM'000	RM'000	**RM'000**	RM'000	RM'000
Derivative financial assets (Note 38)	**1,079,988**	1,268,968	1,047,497	**1,114,866**	1,263,775	1,038,792
Interest/ income receivable	**120,093**	72,858	45,932	**106,624**	69,224	44,881
Other receivables, deposits and prepayments	**996,483**	412,695	843,912	**988,175**	401,638	811,455
	2,196,564	1,754,521	1,937,341	**2,209,665**	1,734,637	1,895,128

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 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
	RM'000	RM'000	RM'000	**RM'000**	RM'000	RM'000
Unquoted shares, at cost - in Malaysia	**-**	-	-	**660,021**	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 2012	31 Dec 2011	1 Jan 2011
HSBC (Kuala Lumpur) Nominees Sdn Bhd*	Nominee company	Malaysia	**100%**	100%	100%
HSBC Nominees (Tempatan) Sdn Bhd*	Nominee company	Malaysia	**100%**	100%	100%
HSBC Nominees (Asing) Sdn Bhd*	Nominee company	Malaysia	**100%**	100%	100%
HSBC Amanah Malaysia Berhad*	Islamic bank	Malaysia	**100%**	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. HOUSe's principal activity is the management of the shared Automated Teller Machine network amongst its member banks. The other three joint venture partners of HOUSe are Standard Chartered Bank Malaysia Berhad, United Overseas Bank Malaysia Berhad and OCBC Bank Malaysia Berhad, each holding RM1 paid up ordinary share.

16 Property and Equipment

2012	*Group* 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 2012	**90,228**	**16,658**	**4,943**	**114,377**	**11,173**	**3,566**	**243,963**	**154,987**	**3,169**	**643,064**
Additions	**-**	**-**	**-**	**-**	**-**	**-**	**16,721**	**16,017**	**827**	**33,565**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**(5)**	**(437)**	**(900)**	**(1,342)**
Written off	**-**	**-**	**-**	**(341)**	**-**	**-**	**(26,145)**	**(8,621)**	**-**	**(35,107)**
Reclassification	**-**	**(1,753)**	**(509)**	**-**	**-**	**-**	**(42)**	**1**	**(93)**	**(2,396)**
Adjustments for revaluation	**10,830**	**672**	**240**	**8,306**	**(10)**	**(40)**	**-**	**-**	**-**	**19,998**
Balance at 31 December 2012	**101,058**	**15,577**	**4,674**	**122,342**	**11,163**	**3,526**	**234,492**	**161,947**	**3,003**	**657,782**
Representing items at:										
Cost	**-**	**-**	**-**	**-**	**-**	**-**	**234,492**	**161,947**	**3,003**	**399,442**
Valuation - 2012	**101,058**	**15,577**	**4,674**	**122,342**	**11,163**	**3,526**	**-**	**-**	**-**	**258,340**
	101,058	**15,577**	**4,674**	**122,342**	**11,163**	**3,526**	**234,492**	**161,947**	**3,003**	**657,782**
Accumulated depreciation										
Balance as at 1 January 2012	**-**	**1,754**	**509**	**-**	**-**	**-**	**160,369**	**124,482**	**1,918**	**289,032**
Charge for the year	**-**	**401**	**106**	**2,718**	**285**	**85**	**24,319**	**12,510**	**549**	**40,973**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**(5)**	**(437)**	**(705)**	**(1,147)**
Written off	**-**	**-**	**-**	**(112)**	**-**	**-**	**(25,657)**	**(8,621)**	**-**	**(34,390)**
Reclassification	**-**	**(1,753)**	**(509)**	**-**	**-**	**-**	**(42)**	**1**	**(93)**	**(2,396)**
Adjustments for revaluation	**-**	**(402)**	**(106)**	**(2,606)**	**(285)**	**(85)**	**-**	**-**	**-**	**(3,484)**
Balance at 31 December 2012	**-**	**-**	**-**	**-**	**-**	**-**	**158,984**	**127,935**	**1,669**	**288,588**
Net book value at 31 December 2012	**101,058**	**15,577**	**4,674**	**122,342**	**11,163**	**3,526**	**75,508**	**34,012**	**1,334**	**369,194**

The land and buildings of the Group and the Bank were revalued on the open market value basis as of 31 December 2012 based on professional valuations.

16 Property and Equipment (Cont'd)

					Bank					
2012	*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 2012	**90,228**	**16,658**	**4,943**	**114,377**	**11,173**	**3,566**	**226,319**	**143,554**	**2,855**	**613,673**
Additions	**-**	**-**	**-**	**-**	**-**	**-**	**5,697**	**10,361**	**827**	**16,885**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**(5)**	**(437)**	**(900)**	**(1,342)**
Written off	**-**	**-**	**-**	**(341)**	**-**	**-**	**(26,142)**	**(8,621)**	**-**	**(35,104)**
Reclassification	**-**	**(1,753)**	**(509)**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,262)**
Net transfers to subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(143)**	**-**	**(143)**
Adjustments for revaluation	**10,830**	**672**	**240**	**8,306**	**(10)**	**(40)**	**-**	**-**	**-**	**19,998**
Balance at 31 December 2012	**101,058**	**15,577**	**4,674**	**122,342**	**11,163**	**3,526**	**205,869**	**144,714**	**2,782**	**611,705**
Representing items at:										
Cost	**-**	**-**	**-**	**-**	**-**	**-**	**205,869**	**144,714**	**2,782**	**353,365**
Valuation - 2012	**101,058**	**15,577**	**4,674**	**122,342**	**11,163**	**3,526**	**-**	**-**	**-**	**258,340**
	101,058	**15,577**	**4,674**	**122,342**	**11,163**	**3,526**	**205,869**	**144,714**	**2,782**	**611,705**
Accumulated depreciation										
Balance as at 1 January 2012	**-**	**1,754**	**509**	**-**	**-**	**-**	**153,457**	**121,059**	**1,788**	**278,567**
Charge for the year	**-**	**401**	**106**	**2,718**	**285**	**85**	**19,171**	**9,792**	**505**	**33,063**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**(5)**	**(437)**	**(705)**	**(1,147)**
Written off	**-**	**-**	**-**	**(112)**	**-**	**-**	**(25,655)**	**(8,621)**	**-**	**(34,388)**
Reclassification	**-**	**(1,753)**	**(509)**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,262)**
Net transfers to subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**1**
Adjustments for revaluation	**-**	**(402)**	**(106)**	**(2,606)**	**(285)**	**(85)**	**-**	**-**	**-**	**(3,484)**
Balance at 31 December 2012	**-**	**-**	**-**	**-**	**-**	**-**	**146,968**	**121,794**	**1,588**	**270,350**
Net book value at 31 December 2012	**101,058**	**15,577**	**4,674**	**122,342**	**11,163**	**3,526**	**58,901**	**22,920**	**1,194**	**341,355**

The land and buildings of the Bank were revalued on the open market value basis as of 31 December 2012 based on professional valuations.

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 1 January 2011	**79,903**	**15,006**	**4,434**	**113,846**	**11,183**	**3,566**	**60,882**	**28,095**	**1,566**	**318,481**
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 1 January 2011	**79,903**	**15,006**	**4,434**	**113,846**	**11,183**	**3,566**	**49,708**	**22,844**	**1,566**	**302,056**
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.

17 Intangible Assets

	Group	*Bank*
	Computer software	
2012	**RM'000**	**RM'000**
Cost		
Balance at 1 January 2012	**183,560**	**178,486**
Additions	**22,341**	**22,323**
Written off	**(1,199)**	**(1,199)**
Balance at 31 December 2012	**204,702**	**199,610**
Accumulated depreciation		
Balance at 1 January 2012	**130,297**	**125,684**
Charge for the year	**22,079**	**21,629**
Written off	**(1,199)**	**(1,199)**
At 31 December 2012	**151,177**	**146,114**
Accumulated depreciation	***146,010***	***140,947***
Accumulated impairment loss	***5,167***	***5,167***
Net book value at 31 December 2012	**53,525**	**53,496**
2011		
Cost		
Balance 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 at 31 December 2011	183,560	178,486
Accumulated depreciation		
Balance 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
At 31 December 2011	130,297	125,684
Accumulated depreciation	*125,130*	*120,517*
Accumulated impairment loss	*5,167*	*5,167*
Net book value at 1 January 2011	60,621	59,122
Net book value at 31 December 2011	53,263	52,802

18 Deferred Tax

The amounts, prior to offsetting are summarised as follows:

	Group			*Bank*		
	31 Dec 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
	RM'000	RM'000	RM'000	**RM'000**	RM'000	RM'000
Deferred tax assets	**222,937**	211,813	291,279	**178,454**	180,075	252,685
Deferred tax liabilities	**(46,923)**	(43,547)	(39,105)	**(43,913)**	(41,483)	(37,377)
	176,014	168,266	252,174	**134,541**	138,592	215,308

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*		
Property and equipment						
Capital allowances	**(19,649)**	**(20,510)**	(18,322)	**(16,856)**	(18,510)	(16,594)
Revaluation	**(21,592)**	**(18,950)**	(19,233)	**(21,592)**	(18,950)	(19,233)
Available-for-sale reserve	**(5,535)**	**(3,636)**	(1,504)	**(5,357)**	(3,587)	(1,550)
Cash flow hedge reserve	**(108)**	**(285)**	-	**(108)**	(285)	-
Allowances						
Collective impairment allowance	**99,242**	**92,907**	210,988	**64,148**	67,774	177,066
Others	**118,779**	**113,269**	78,448	**109,390**	106,664	73,825
Lease receivables	**(39)**	**(166)**	238	**-**	(151)	235
Share based payments	**4,916**	**5,637**	1,559	**4,916**	5,637	1,559
	176,014	**168,266**	252,174	**134,541**	138,592	215,308

18 Deferred tax (Cont'd)

Movement in temporary differences during the year

Group

	As at 01-Jan-11	*Recognised in income statement*	*Recognised in other comprehensive income*	*As at 31-Dec-11 / 01-Jan-12*	*Recognised in retained earnings*	*Recognised in income statement*	*Recognised in other comprehensive income*	*As at 31-Dec-12*
	RM'000	RM'000	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Property and equipment								
- capital allowances	(18,322)	(2,188)	-	**(20,510)**	**-**	**861**	**-**	**(19,649)**
- revaluation	(19,233)	519	(236)	**(18,950)**	**-**	**511**	**(3,153)**	**(21,592)**
Available-for-sale reserve	(1,504)	-	(2,132)	**(3,636)**	**-**	**-**	**(1,899)**	**(5,535)**
Cash flow hedge reserve	-	-	(285)	**(285)**	**-**	**-**	**177**	**(108)**
Allowances								
- collective impairment allowance	210,988	(118,081)	-	**92,907**	**-**	**6,335**	**-**	**99,242**
- others	78,448	34,821	-	**113,269**	**(1,340)**	**6,850**	**-**	**118,779**
Lease receivables	238	(404)	-	**(166)**	**-**	**127**	**-**	**(39)**
Share based payments	1,559	4,078	-	**5,637**	**-**	**(721)**	**-**	**4,916**
	252,174	(81,255)	(2,653)	**168,266**	**(1,340)**	**13,963**	**(4,875)**	**176,014**

Bank

	As at 01-Jan-11	*Recognised in income statement*	*Recognised in other comprehensive income*	*As at 31-Dec-11 / 01-Jan-12*	*Transfer from subsidiary via statement of financial position*	*Recognised in income statement*	*Recognised in other comprehensive income*	*As at 31-Dec-12*
	RM'000	RM'000	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Property and equipment								
- capital allowances	(16,594)	(1,916)	-	**(18,510)**	**-**	**1,654**	**-**	**(16,856)**
- revaluation	(19,233)	519	(236)	**(18,950)**	**-**	**511**	**(3,153)**	**(21,592)**
Available-for-sale reserve	(1,550)	-	(2,037)	**(3,587)**	**-**	**-**	**(1,770)**	**(5,357)**
Cash flow hedge reserve	-	-	(285)	**(285)**	**-**	**-**	**177**	**(108)**
Allowances								
- collective impairment allowance	177,066	(109,292)	-	**67,774**	**668**	**(4,294)**	**-**	**64,148**
- others	73,825	32,839	-	**106,664**	**-**	**2,726**	**-**	**109,390**
Lease receivables	235	(386)	-	**(151)**	**-**	**151**	**-**	**-**
Share based payments	1,559	4,078	-	**5,637**	**-**	**(721)**	**-**	**4,916**
	215,308	(74,158)	(2,558)	**138,592**	**668**	**27**	**(4,746)**	**134,541**

19 Deposits from Customers

(i) By type of deposit

	Group			Bank		
	31 Dec 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
	RM'000	RM'000	RM'000	**RM'000**	RM'000	RM'000
Demand deposits	**14,911,616**	13,308,265	10,452,840	**14,113,743**	12,634,457	9,939,130
Savings deposits	**10,293,923**	9,096,358	8,225,387	**9,351,051**	8,273,878	7,570,037
Fixed / Investment deposits	**26,029,899**	26,877,993	23,847,727	**20,583,641**	23,097,804	21,363,980
Islamic repurchase agreements	**223,467**	192,401	147,534	**-**	-	-
Negotiable instruments of deposit	**3,009,648**	2,985,317	860,786	**2,929,214**	2,969,917	860,786
Wholesale money market deposits	**1,384,134**	2,801,305	2,379,524	**1,384,134**	2,801,305	2,379,524
Structured deposits	**4,085,359**	3,475,458	2,578,676	**2,936,475**	3,297,261	2,448,479
	59,938,046	58,737,097	48,492,474	**51,298,258**	53,074,622	44,561,936

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

	Group			Bank		
Due within six months	**21,514,495**	22,183,256	19,308,201	**16,816,872**	18,965,859	17,143,088
More than six months to one year	**5,948,484**	4,353,669	4,311,527	**5,239,020**	3,805,559	4,016,246
More than one year to three years	**1,183,801**	2,876,560	689,572	**1,125,090**	2,846,478	670,836
More than three years to five years	**392,767**	449,825	399,076	**331,873**	449,825	394,459
Over 5 years	**-**	-	137	**-**	-	137
	29,039,547	29,863,310	24,708,513	**23,512,855**	26,067,721	22,224,766

(ii) By type of customer

	Group			Bank		
Government and statutory bodies	**124,902**	108,696	152,207	**37,905**	22,072	17,688
Business enterprises	**21,414,070**	23,600,491	17,511,946	**19,360,238**	21,717,218	15,792,441
Individuals	**27,451,677**	25,250,051	23,643,439	**22,199,416**	22,179,576	21,942,955
Others	**10,947,397**	9,777,859	7,184,882	**9,700,699**	9,155,756	6,808,852
	59,938,046	58,737,097	48,492,474	**51,298,258**	53,074,622	44,561,936

20 Deposits and Placements from Banks and Other Financial Institutions

	Group			Bank		
	31 Dec 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
	RM'000	RM'000	RM'000	**RM'000**	RM'000	RM'000
Licensed banks	**100,000**	-	-	**-**	-	-
Bank Negara Malaysia	**56,886**	125,888	68,133	**47,111**	77,482	68,133
Other financial institutions	**5,960,160**	9,783,074	6,784,915	**5,960,160**	9,352,072	6,193,403
	6,117,046	9,908,962	6,853,048	**6,007,271**	9,429,554	6,261,536

21 Other Liabilities

	Group			Bank		
	31 Dec 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
	RM'000	RM'000	RM'000	**RM'000**	RM'000	RM'000
Derivative financial liabilities	**781,671**	1,002,246	854,854	**792,496**	1,010,711	854,854
Interest/ profit payable	**219,840**	205,812	174,070	**177,925**	189,309	161,520
Allowance for commitments and contingencies	**-**	-	1,980	**-**	-	1,980
Profit equalisation reserve	**1,340**	6,700	6,700	**-**	-	-
Other creditors and accruals	**1,643,298**	3,331,832	1,209,896	**1,655,508**	3,431,858	1,154,728
	2,646,149	4,546,590	2,247,500	**2,625,929**	4,631,878	2,173,082

22 Multi-Currency Sukuk Programme

	Group		
	31 Dec 2012	31 Dec 2011	1 Jan 2011
	RM'000	RM'000	RM'000
Multi-Currency Sukuk Programme	**500,000**	-	-

* HSBC Amanah Malaysia Berhad, a subsidiary of the Bank, issued a RM500 million 5-year medium term note (Sukuk) under its RM3 billion Multi-Currency Sukuk Programme ('MCSP') . The sukuk's maturity date is 28 September 2017 and bears a distribution rate of 3.75% per annum payable semi-annually in arrears. The sukuk issued under the MCSP is carried at amortised cost, with profit payable recognised on an accruals basis.

23 Subordinated Bonds

	Group			*Bank*		
	31 Dec 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
	RM'000	RM'000	RM'000	**RM'000**	RM'000	RM'000
Subordinated bonds, at par	**1,000,000**	1,000,000	1,000,000	**1,000,000**	1,000,000	1,000,000
Fair value changes arising from fair value hedge	**12,591**	15,200	3,039	**12,591**	15,200	3,039
	1,012,591	1,015,200	1,003,039	**1,012,591**	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 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 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
	RM'000	RM'000	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**	500,000	500,000
1 billion preference shares of RM0.50 each	**500,000**	500,000	500,000	**500,000**	500,000	500,000
	1,000,000	1,000,000	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**	114,500	114,500

25 Reserves

	Group			Bank		
	31 Dec 2012	31 Dec 2011	1 Jan 2011	**31 Dec 2012**	31 Dec 2011	1 Jan 2011
	RM'000	RM'000	RM'000	**RM'000**	RM'000	RM'000
Share premium	**741,375**	741,375	741,375	**741,375**	741,375	741,375
Statutory reserve	**164,500**	164,500	164,500	**114,500**	114,500	114,500
Revaluation reserve	**167,322**	148,597	139,110	**167,322**	148,597	139,110
Capital redemption reserve	**190,000**	190,000	190,000	**190,000**	190,000	190,000
Cash flow hedge reserve	**324**	854	-	**324**	854	-
Available-for-sale reserve	**16,602**	10,914	4,512	**16,068**	10,766	4,648
Capital contribution reserve	**90,923**	89,811	81,169	**89,760**	89,115	80,834
Retained profits (exclude proposed dividends)	**4,106,664**	3,404,225	2,837,027	**3,778,581**	3,213,401	2,747,091
	5,477,710	4,750,276	4,157,693	**5,097,930**	4,508,608	4,017,558

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 RM771,243,000 of its unappropriated profits at 31 December 2012, 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 2012 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 2012	31 Dec 2011	**31 Dec 2012**	31 Dec 2011
Interest income	**RM'000**	RM'000	**RM'000**	RM'000
Loans and advances				
- Interest income other than from impaired loans	**1,644,206**	1,588,940	**1,644,206**	1,588,940
- Interest income recognised from impaired loans	**2,441**	2,569	**2,441**	2,569
Money at call and deposit placements with financial institutions	**450,775**	512,411	**510,115**	564,699
Financial investments available-for-sale	**157,875**	91,868	**157,875**	91,868
Fair value hedge derivative assets	**4,018**	4,388	**4,018**	4,388
	2,259,315	2,200,176	**2,318,655**	2,252,464
Interest expense				
Deposits and placements of banks and other financial institutions	**(109,227)**	(94,601)	**(109,227)**	(94,601)
Deposits from customers	**(805,063)**	(873,162)	**(805,063)**	(873,162)
Loans sold to Cagamas	**-**	(6,674)	**-**	(6,674)
Subordinated bonds	**(47,129)**	(47,000)	**(47,129)**	(47,000)
Others	**(4,891)**	(5,513)	**(4,891)**	(5,513)
	(966,310)	(1,026,950)	**(966,310)**	(1,026,950)
Net interest income	**1,293,005**	1,173,226	**1,352,345**	1,225,514

27 Net Fee and Commission Income

	Group		Bank	
	31 Dec 2012	31 Dec 2011	**31 Dec 2012**	31 Dec 2011
Fee and commission income	**RM'000**	RM'000	**RM'000**	RM'000
Credit cards	**172,999**	171,206	**172,999**	171,206
Service charges and fees	**170,189**	154,927	**170,189**	154,927
Fees on credit facilities	**33,899**	31,831	**33,899**	31,831
Agency fee	**83,178**	79,467	**83,178**	79,467
Others	**58,348**	55,921	**58,378**	55,921
	518,613	493,352	**518,643**	493,352
Fee and commission expense				
Interbank and clearing fees	**(1,228)**	(1,104)	**(1,228)**	(1,104)
Brokerage	**(3,132)**	(2,845)	**(3,132)**	(2,845)
Others	**(26,541)**	(20,401)	**(26,541)**	(20,401)
	(30,901)	(24,350)	**(30,901)**	(24,350)
Net fee and commission income	**487,712**	469,002	**487,742**	469,002

28 Net Trading Income

	Group		Bank	
	31 Dec 2012	31 Dec 2011	**31 Dec 2012**	31 Dec 2011
	RM'000	RM'000	**RM'000**	RM'000
Realised gains on financial assets/liabilities held-for-trading and other financial instruments	**100,587**	118,384	**100,587**	118,384
Net interest income from financial assets held-for-trading	**31,856**	84,903	**31,856**	84,903
Net unrealised gains/(losses) on revaluation of financial assets held-for-trading	**4,691**	(5,198)	**4,691**	(5,198)
Net realised gains arising from dealing in foreign currency	**419,181**	459,925	**417,382**	459,925
Net unrealised losses from dealing in foreign currency	**(13,167)**	(15,599)	**(13,167)**	(15,599)
Net realised gains arising from dealing in derivatives	**65,309**	1,691	**64,976**	1,566
Net unrealised gains on revaluation of derivatives	**14,240**	49,343	**15,159**	44,801
Gains/(losses) arising from fair value hedges	**196**	(37)	**196**	(37)
	622,893	693,412	**621,680**	688,745

29 Income from Islamic Banking operations

	Group	
	31 Dec 2012	31 Dec 2011
	RM'000	RM'000
Income derived from investment of depositor funds and others	**622,437**	445,808
Income derived from investment of shareholders funds	**130,178**	88,782
Income attributable to the depositors	**(185,625)**	(101,762)
	566,990	432,828

30 Other Operating Income

	Group		Bank	
	31 Dec 2012	31 Dec 2011	**31 Dec 2012**	31 Dec 2011
	RM'000	RM'000	**RM'000**	RM'000
Disposal of financial investments available-for-sale	**2,597**	1,698	**2,597**	1,698
Dividend income from financial investments available-for-sale				
- Unquoted in Malaysia	**2,009**	1,119	**2,009**	1,119
- Quoted outside Malaysia	**-**	57	**-**	57
Rental income	**6,874**	6,862	**6,874**	6,862
Net (losses)/gains on disposal of property and equipment	**(11)**	303	**(11)**	303
Net upwards/(downwards) revaluation on property	**39**	(11)	**39**	(11)
Other operating income	**25,936**	23,815	**131,853**	121,142
	37,444	33,843	**143,361**	131,170

31 Loans/ Financing Impairment Charges and other Credit Risk Provisions

	Group		Bank	
	31 Dec 2012	31 Dec 2011	**31 Dec 2012**	31 Dec 2011
	RM'000	RM'000	**RM'000**	RM'000
Impairment charges on loans and financing:				
(a) Individual impairment				
Made during the year	**87,608**	51,838	**55,520**	38,440
Written back	**(58,868)**	(54,512)	**(40,815)**	(52,024)
(b) Collective impairment				
Made during the year	**331,860**	259,310	**171,940**	154,626
Written back	**(51,111)**	(41,680)	**(44,467)**	(36,245)
Impaired loans and financing				
Recovered during the year	**(106,711)**	(95,712)	**(80,399)**	(74,296)
Written off	**12,989**	42,722	**11,978**	35,060
Impairment charges on commitments and contingencies:				
Written back	**-**	(1,980)	**-**	(1,980)
	215,767	159,986	**73,757**	63,581

32 Other Operating Expenses

	Group		Bank	
	31 Dec 2012	31 Dec 2011	**31 Dec 2012**	31 Dec 2011
	RM'000	RM'000	**RM'000**	RM'000
Personnel expenses	**607,128**	600,145	**571,264**	573,694
Promotion and marketing related expenses	**76,352**	77,250	**60,270**	66,859
Establishment related expenses	**156,295**	155,801	**136,319**	142,072
General administrative expenses	**379,520**	381,352	**355,706**	367,738
	1,219,295	1,214,548	**1,123,559**	1,150,363

The above expenditure includes the following major items :

	Group		Bank	
Personnel expenses				
Salaries, allowances and bonuses	**462,717**	448,502	**434,569**	427,492
Employees Provident Fund contributions	**75,285**	75,707	**70,866**	72,311
Promotion and marketing related expenses				
Advertising and promotion	**48,737**	52,327	**38,822**	44,691
Establishment related expenses				
Depreciation of property and equipment	**40,973**	41,233	**33,063**	35,617
Amortisation of intangible assets	**22,079**	25,463	**21,629**	25,230
Information technology costs	**14,801**	18,914	**13,618**	18,147
Hire of equipment	**9,942**	7,442	**9,888**	7,371
Rental of premises	**40,013**	35,198	**32,684**	30,124
Property and equipment written off	**717**	129	**716**	78
General administrative expenses				
Intercompany expenses	**247,111**	275,320	**240,317**	267,879
Auditors' remuneration				
Statutory audit fees				
KPMG Malaysia	**505**	480	**395**	380
Other services				
KPMG Malaysia	**480**	378	**345**	288

33 Income tax expense

	Group		Bank	
	31 Dec 2012	31 Dec 2011	**31 Dec 2012**	31 Dec 2011
	RM'000	RM'000	**RM'000**	RM'000
Malaysian income tax				
- Current year	**408,575**	373,941	**359,101**	342,237
- In respect of changes in tax treatment for collective allowance for impairment	**-**	(127,547)	**-**	(114,990)
- Prior years	**(22,977)**	35,258	**(19,370)**	35,100
Total current tax recognised in profit or loss	**385,598**	281,652	**339,731**	262,347
Deferred tax				
Origination and reversal of temporary differences				
- Current year	**(13,963)**	(18,656)	**(27)**	(8,279)
- In respect of changes in tax treatment for collective allowance for impairment	**-**	136,967	**-**	117,537
- Over provision in prior years	**-**	(37,056)	**-**	(35,100)
Total deferred tax recognised in profit or loss	**(13,963)**	81,255	**(27)**	74,158
Total income tax expense	**371,635**	362,907	**339,704**	**336,505**

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

	Group		Bank	
	31 Dec 2012	31 Dec 2011	**31 Dec 2012**	31 Dec 2011
	RM'000	RM'000	**RM'000**	RM'000
Profit before income tax	**1,572,982**	1,422,610	**1,407,812**	1,295,320
Income tax using Malaysian tax rates (25%)	**393,246**	355,653	**351,953**	323,830
Non-deductible expenses	**9,427**	13,891	**7,616**	12,936
Tax exempt income	**(8,061)**	(4,839)	**(495)**	(261)
Overprovision in respect of prior years	**(22,977)**	(1,798)	**(19,370)**	-
Income tax expense	**371,635**	362,907	**339,704**	336,505

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 (2011: 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: -

ii 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			
	2012		2011	
	Parent companies **RM'000**	***Other related companies*** **RM'000**	*Parent companies* RM'000	*Other related companies* RM'000
Income				
Interest/profit on intercompany placements	**7,880**	**5,023**	24,198	2,672
Interest/profit on current accounts	**-**	**46**	-	7
Fees and commission	**15,507**	**43,009**	5,540	55,418
Other income	**3,314**	**16,712**	4,094	13,391
	26,701	**64,790**	33,832	71,488
Expenditure				
Interest/profit on intercompany deposits	**40,396**	**8,911**	42,827	8,073
Interest/profit on current accounts	**-**	**134**	-	66
Fees and commission	**1,418**	**6,513**	513	6,035
Operating expenses	**194,337**	**52,774**	233,830	41,489
	236,151	**68,332**	277,170	55,663
Amount due from				
Intercompany placements	**110,825**	**403,835**	708,847	396,000
Current account balances	**148,205**	**1,293,969**	35,348	306,170
Other assets	**4,475**	**60,311**	339,470	39,013
	263,505	**1,758,115**	1,083,665	741,183
Amount due to				
Intercompany deposits	**998,386**	**1,522,693**	2,084,802	609,881
Current account balances	**1,184,342**	**190,262**	7,913	295,573
Other liabilities	**164,755**	**24,787**	195,542	165,265
	2,347,483	**1,737,742**	2,288,257	1,070,719

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

	Bank			
	2012		2011	
	Parent companies	***Other related companies***	*Parent companies*	*Other related companies*
	RM'000	**RM'000**	RM'000	RM'000
Income				
Interest on intercompany placements	**7,880**	**64,363**	24,198	54,960
Interest on current accounts	**-**	**46**	-	7
Fees and commission	**8,086**	**27,693**	4,833	49,887
Other income	**3,314**	**122,629**	4,094	110,718
	19,280	**214,731**	33,125	215,572
Expenditure				
Interest on intercompany deposits	**40,396**	**6,283**	42,827	3,726
Interest on current accounts	**-**	**134**	-	66
Fees and commission	**1,416**	**6,426**	511	6,006
Operating expenses	**194,337**	**45,980**	233,830	34,049
	236,149	**58,823**	277,168	43,847
Amount due from				
Intercompany placements	**110,825**	**2,057,376**	708,847	3,657,117
Current account balances	**146,215**	**1,241,146**	35,348	271,977
Other assets	**1,120**	**61,073**	178,557	41,976
	258,160	**3,359,595**	922,752	3,971,070
Amount due to				
Intercompany deposits	**998,386**	**1,397,508**	2,084,802	76,200
Current account balances	**1,184,342**	**190,262**	7,913	295,573
Other liabilities	**164,755**	**101,222**	195,542	159,438
	2,347,483	**1,688,992**	2,288,257	531,211

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, advances and financing balances due by the key management personnel of the Group and the Bank at 31 December 2012 amount to RM55,105 (2011: RM103,683) and RM37,499 (2011: RM40,442) 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 profit or loss and other 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.

2012

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)	**3,308**	**853**	**78**	**-**	**4,239**
Baldev Singh s/o Gurdial Singh	**1,039**	**128**	**7**	**-**	**1,174**
Executive Director of subsidiary companies					
Mohamed Rafe Bin Mohamed Haneef	**1,875**	**172**	**35**	**-**	**2,082**
Non Executive Directors of the Bank and subsidiary companies					
Tan Sri Dato’ Sulaiman bin Sujak	**-**	**-**	**-**	**99**	**99**
Dato’ Henry Sackville Barlow	**-**	**-**	**-**	**97**	**97**
Datuk Ramli bin Ibrahim	**-**	**-**	**-**	**102**	**102**
Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem*	**-**	**-**	**-**	**19**	**19**
Mr Ching Yew Chye	**-**	**-**	**-**	**86**	**86**
Mohamed Ross bin Mohd Din	**-**	**-**	**-**	**90**	**90**
Azlan bin Abdullah	**-**	**-**	**-**	**81**	**81**
Mohamed Ashraf Bin Mohamed Iqbal	**-**	**-**	**-**	**82**	**82**
Lee Choo Hock	**-**	**-**	**-**	**91**	**91**
	6,222	**1,153**	**120**	**747**	**8,242**

*Resigned 2 April 2012

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

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

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)

2012

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)	**3,308**	**853**	**78**	**-**	**4,239**
Baldev Singh s/o Gurdial Singh	**1,039**	**128**	**7**	**-**	**1,174**
Non Executive Directors of the Bank					
Tan Sri Dato' Sulaiman bin Sujak	**-**	**-**	**-**	**99**	**99**
Dato' Henry Sackville Barlow	**-**	**-**	**-**	**97**	**97**
Datuk Ramli bin Ibrahim	**-**	**-**	**-**	**102**	**102**
Professor Emeritus Datuk Dr Mohamed Ariff bin Abdul Kareem*	**-**	**-**	**-**	**19**	**19**
Mr Ching Yew Chye	**-**	**-**	**-**	**86**	**86**
	4,347	**981**	**85**	**403**	**5,816**

*Resigned 2 April 2012

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

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 2012	31 Dec 2011	**31 Dec 2012**	31 Dec 2011
	RM'000	RM'000	**RM'000**	RM'000
Aggregate value of outstanding credit exposures to connected parties	**2,473,475**	4,021,326	**2,378,046**	4,135,280
As a percentage of total credit exposures	**4.3%**	7.7%	**5.1%**	9.6%
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 2012	31 Dec 2011
	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)	**4,406,664**	3,704,225
Statutory reserve	**164,500**	164,500
	5,617,039	4,914,600
Less: Deferred tax adjustments	**(203,249)**	(191,138)
Total Tier 1 capital	**5,413,790**	4,723,462
Tier 2 capital		
Subordinated bonds	**1,012,591**	1,015,200
Revaluation reserves	**96,380**	85,441
Collective impairment allowance (unimpaired portion)	**293,079**	286,956
Total Tier 2 capital	**1,402,050**	1,387,597
Total capital	**6,815,840**	6,111,059
Capital base	**6,815,840**	6,111,059
Core capital ratio	**11.2%**	10.3%
Risk-weighted capital ratio	**14.1%**	13.3%
Core capital ratio (net of proposed dividend)	**10.6%**	9.6%
Risk-weighted capital ratio (net of proposed dividend)	**13.5%**	12.6%

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 2012		31 Dec 2011	
	Principal	**Risk-weighted**	Principal	Risk-weighted
	RM'000	**RM'000**	RM'000	RM'000
Total RWA for credit risk	**89,694,195 ***	**41,396,781 ***	88,851,581	38,728,263
Total RWA for market risk	**-**	**1,628,155**	-	2,622,157
Total RWA for operational risk	**-**	**5,211,149**	-	4,680,548
	89,694,195	**48,236,085**	88,851,581	46,030,968

The comparative capital adequacy ratios and components of capital base have been restated for the effects of the change in accounting policy on the impairment of collectively assessed loans, advances and financing. Please refer to Note 2e) Changes in Accounting Policies and Note 45 Explanation of Transition to MFRS for a summary of the changes.

* The principal and risk weighted amount of total RWA for credit risk relating to the PSIA2 (refer Note 10(i) for more details) is RM632.121m for both in 2012 (2011: Nil).

37 Capital Adequacy (Cont'd)

	Bank	
	31 Dec 2012	31 Dec 2011
	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)	**4,078,581**	3,513,401
Statutory reserve	**114,500**	114,500
	5,238,956	4,673,776
Less: Deferred tax adjustments	**(161,597)**	(161,415)
Total Tier 1 capital	**5,077,359**	4,512,361
Tier 2 capital		
Subordinated bonds	**1,012,591**	1,015,200
Revaluation reserves	**96,380**	85,441
Collective impairment allowance (unimpaired portion)	**205,352**	225,733
Tier 2 capital	**1,314,323**	1,326,374
Less: Investment in subsidiaries	**(660,021)**	(660,021)
Total Tier 2 capital	**654,302**	666,353
Capital base	**5,731,661**	5,178,714
Core capital ratio	**12.6%**	11.5%
Risk-weighted capital ratio	**14.3%**	13.2%
Core capital ratio (net of proposed dividend)	**11.9%**	10.7%
Risk-weighted capital ratio (net of proposed dividend)	**13.5%**	12.4%

The capital ratios have been computed in accordance with the Basel 2 Standardised Approach under the RWCAF.

Breakdown of gross RWA in the various categories of risk-weights:

	Bank			
	31 Dec 2012		31 Dec 2011	
	Principal	**Risk-weighted**	Principal	Risk-weighted
	RM'000	**RM'000**	RM'000	RM'000
Total RWA for credit risk	**77,398,695** *	**33,949,851** *	80,688,742	32,514,625
Total RWA for market risk	**-**	**1,555,686**	-	2,521,215
Total RWA for operational risk	**-**	**4,691,534**	-	4,305,377
	77,398,695	**40,197,071**	80,688,742	39,341,217

The comparative capital adequacy ratios and components of capital base have been restated for the effects of the change in accounting policy on the impairment of collectively assessed loans, advances and financing. Please refer to Note 2e) Changes in Accounting Policies and Note 45 Explanation of Transition to MFRS for a summary of the changes.

* The principal and risk weighted amount of total RWA for credit risk relating to the PSIA2 (refer Note 10(i) for more details) is RM632.121m for both in 2012 (2011: Nil).

38 Commitments and Contingencies

31 Dec 2012	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	**1,882,226**	**-**	**1,882,226**	**1,745,306**
Transaction-related contingent items	**5,384,900**	**-**	**2,692,450**	**2,020,812**
Short-term self-liquidating trade-related contingencies	**330,273**	**-**	**66,055**	**41,157**
Irrevocable commitments to extend credit:				
- Maturity not exceeding one year	**12,611,099**	**-**	**2,522,220**	**2,223,753**
- Maturity exceeding one year	**3,026,031**	**-**	**1,513,015**	**1,413,440**
Unutilised credit card lines	**7,900,096**	**-**	**1,580,019**	**1,185,014**
Foreign exchange related contracts				
- Less than one year	**36,985,063**	**176,877**	**602,755**	**313,985**
- Over one year to less than five years	**10,869,930**	**460,700**	**1,252,206**	**777,135**
- Over five years	**2,642,308**	**94,544**	**372,914**	**249,144**
Interest/profit rate related contracts:				
- Less than one year	**8,957,570**	**7,498**	**25,391**	**8,694**
- Over one year to less than five years	**29,512,995**	**211,040**	**847,259**	**319,445**
- Over five years	**3,215,881**	**64,348**	**303,439**	**122,486**
Gold and other precious metals contracts				
- Less than one year	**70,533**	**23,133**	**23,713**	**4,743**
Other commodity contracts:				
- Less than one year	**22,491**	**-**	**2,249**	**450**
- Over one year to less than five years	**-**	**-**	**-**	**-**
Equity related contracts				
- Less than one year	**1,734,796**	**11,252**	**115,257**	**23,051**
- Over one year to less than five years	**1,432,169**	**19,660**	**134,739**	**26,948**
- Over five years	**418,964**	**10,936**	**52,833**	**10,567**
	126,997,325	**1,079,988**	**13,988,740**	**10,486,130**
		Note 12		

^ The foreign exchange related contracts, interest/profit rate related contracts, equity related contracts, gold and other precious metals contracts and other 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 commodities price) of the underlying instruments. The table above shows the Group's derivative financial instruments at the statement of financial position date. The underlying principal amount of these derivative financial instruments and their corresponding gross positive (derivative financial asset) fair values at the statement of financial position 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 RWCAF.

Of the amounts included in the Commitment and Contingencies balances above, none relate to the PSIA2 arrangement entered into in 2012 (refer Note 10(i) for more details).

38 Commitments and Contingencies (Cont'd)

31 Dec 2012	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	1,198,577	-	1,198,577	1,110,047
Transaction-related contingent items	4,710,695	-	2,355,348	1,759,010
Short-term self-liquidating trade-related contingencies	313,165	-	62,633	38,523
Irrevocable commitments to extend credit:				
- Maturity not exceeding one year	10,966,040	-	2,193,208	1,921,019
- Maturity exceeding one year	2,902,347	-	1,451,174	1,353,928
Unutilised credit card lines	6,867,431	-	1,373,486	1,030,115
Foreign exchange related contracts				
- Less than one year	36,933,092	176,485	601,270	312,925
- Over one year to less than five years	10,869,930	460,700	1,252,205	777,135
- Over five years	2,642,308	93,651	368,354	243,625
Interest rate related contracts:				
- Less than one year	8,967,570	11,331	25,416	8,706
- Over one year to less than five years	30,806,494	207,867	884,026	334,633
- Over five years	3,215,881	63,466	302,557	114,729
Gold and other precious metals contracts				
- Less than one year	70,533	23,133	23,713	4,743
Other commodity contracts:				
- Less than one year	22,491	-	2,249	450
- Over one year to less than five years	-	-	-	-
Equity related contracts				
- Less than one year	2,466,209	26,580	174,552	52,968
- Over one year to less than five years	1,616,775	40,717	167,674	47,914
- Over five years	418,964	10,936	52,833	10,566
	124,988,502	1,114,866	12,489,275	9,121,036
		Note 12		

^ The foreign exchange related contracts, interest rate related contracts, equity related contracts, gold and other precious metals contracts and other 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 commodities price) of the underlying instruments. The table above shows the Bank's derivative financial instruments at the statement of financial position date. The underlying principal amount of these derivative financial instruments and their corresponding gross positive (derivative financial asset) fair values at the statement of financial position 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 RWCAF.

Of the amounts included in the Commitment and Contingencies balances above, none relate to the PSIA2 arrangement entered into in 2012 (refer Note 10(i) for more details).

38 Commitments and Contingencies (Cont'd)

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	401,543	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	10,668	24,058	10,127
- Over one year to less than five years	28,908,974	285,956	974,957	363,773
- Over five years	2,675,692	87,208	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	1,947	10,621	2,124
- Over one year to less than five years	1,595,881	39,075	165,381	33,077
- Over five years	453,806	17,372	62,753	12,551
	118,976,559	1,268,968	12,059,412	8,358,934
		Note 12		

^ The foreign exchange related contracts, interest/profit rate related contracts, equity related contracts, gold and other precious metals 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 commodities price) of the underlying instruments. The table above shows the Group's derivative financial instruments at the statement of financial position date. The underlying principal amount of these derivative financial instruments and their corresponding gross positive (derivative financial asset) fair values at the statement of financial position 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 RWCAF and 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	402,043	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	10,668	24,058	10,126
- Over one year to less than five years	30,212,475	285,455	1,024,026	383,424
- Over five years	2,675,692	87,207	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	1,947	10,621	2,124
- Over one year to less than five years	1,405,512	33,883	146,323	29,264
- Over five years	453,805	17,373	62,753	12,553
	116,742,039	1,263,775	10,889,617	7,301,623
		Note 12		

^ The foreign exchange related contracts, interest rate related contracts, equity related contracts, gold and other precious metals 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 commodities price) of the underlying instruments. The table above shows the Bank's derivative financial instruments at the statement of financial position date. The underlying principal amount of these derivative financial instruments and their corresponding gross positive (derivative financial asset) fair values at the statement of financial position 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 RWCAF and a refined temporary (until 31 December 2011) measure relating to credit conversion factor for undrawn facilities.

38 Commitments and Contingencies (Cont'd)

1 Jan 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	1,373,274	-	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	246,416	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	17,328	26,361	10,043
- Over one year to less than five years	25,048,291	175,288	770,220	281,764
- Over five years	2,049,452	18,533	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	6,764	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
	87,355,828	1,047,497	7,315,575	5,194,442
		Note 12		

^ The foreign exchange related contracts, interest/profit rate related contracts, equity related contracts, gold and other precious metals 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 commodities price) of the underlying instruments. The table above shows the Group's derivative financial instruments at the statement of financial position date. The underlying principal amount of these derivative financial instruments and their corresponding gross positive (derivative financial asset) fair values at the statement of financial position 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 RWCAF and the temporary (until 31 December 2010) measure relating to credit conversion factor for undrawn facilities.

38 Commitments and Contingencies (Cont'd)

1 Jan 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	1,283,050	-	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	246,416	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	17,328	26,361	10,043
- Over one year to less than five years	25,048,291	175,288	770,220	281,764
- Over five years	2,049,452	18,533	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	4,572	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	1,038,792	7,033,984	4,979,145
		Note 12		

^ The foreign exchange related contracts, interest rate related contracts, equity related contracts, gold and other precious metals 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 commodities price) of the underlying instruments. The table above shows the Bank's derivative financial instruments at the statement of financial position date. The underlying principal amount of these derivative financial instruments and their corresponding gross positive (derivative financial asset) fair values at the statement of financial position 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 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 2012	**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	**10,416,056**	**-**	**-**	**-**	**-**	**2,247,381**	**-**	**12,663,437**	**2.89**
Securities purchased under resale agreements	**2,033,384**	**399,962**	**-**	**-**	**-**	**-**	**-**	**2,433,346**	**3.01**
Deposits and placements with banks and other financial institutions	**-**	**2,610,617**	**382,376**	**-**	**-**	**-**	**-**	**2,992,993**	**2.51**
Financial assets held-for-trading	**-**	**-**	**-**	**-**	**-**	**-**	**4,597,107**	**4,597,107**	**3.16**
Financial investments available-for-sale	**582,523**	**579,904**	**950,692**	**4,646,782**	**769,516**	**16,908**	**-**	**7,546,325**	**3.25**
Loans, advances and financing									
- performing	**36,262,892**	**2,268,262**	**590,297**	**1,388,077**	**314,129**	**1,076,735**	**-**	**41,900,392**	**5.25**
- impaired *	**-**	**-**	**-**	**-**	**-**	**365,503**	**-**	**365,503**	**-**
Others	**-**	**-**	**-**	**-**	**-**	**2,244,138**	**1,881,318**	**4,125,456**	**-**
Total Assets	**49,294,855**	**5,858,745**	**1,923,365**	**6,034,859**	**1,083,645**	**5,950,665**	**6,478,425**	**76,624,559**	
LIABILITIES AND EQUITY									
Deposits from customers	**29,210,113**	**4,942,065**	**8,519,559**	**757,076**	**-**	**11,394,966**	**5,114,267**	**59,938,046**	**2.11**
Deposits and placements from banks and other financial institutions	**3,180,800**	**893,481**	**54,321**	**4,621**	**3,676**	**1,980,147**	**-**	**6,117,046**	**1.50**
Bills and acceptances payable	**5,711**	**1,237**	**-**	**-**	**-**	**497,401**	**-**	**504,349**	**2.43**
Subordinated bonds	**-**	**-**	**-**	**500,000**	**512,591**	**-**	**-**	**1,012,591**	**4.70**
Multi-Currency Sukuk Programme	**-**	**-**	**-**	**500,000**	**-**	**-**	**-**	**500,000**	**3.75**
Others	**-**	**-**	**-**	**-**	**-**	**1,645,581**	**1,014,736**	**2,660,317**	**-**
Total Liabilities	**32,396,624**	**5,836,783**	**8,573,880**	**1,761,697**	**516,267**	**15,518,095**	**6,129,003**	**70,732,349**	
Equity	**-**	**-**	**-**	**-**	**-**	**5,892,210**	**-**	**5,892,210**	
Total Liabilities and Equity	**32,396,624**	**5,836,783**	**8,573,880**	**1,761,697**	**516,267**	**21,410,305**	**6,129,003**	**76,624,559**	
On-balance sheet interest/profit sensitivity gap	**16,898,231**	**21,962**	**- 6,650,515**	**4,273,162**	**567,378**	**- 15,459,640**	**349,422**	**-**	
Off-balance sheet interest/profit sensitivity gap									
Interest/profit rate contracts									
- futures	**-**	**152,950**	**- 92,950**	**- 60,000**	**-**	**-**	**-**	**-**	
- options	**- 165,000**	**- 190,000**	**-**	**355,000**	**-**	**-**	**-**	**-**	
- swaps	**2,425,520**	**- 3,027,727**	**443,838**	**- 36,418**	**319,569**	**-**	**-**	**124,782**	
Total interest/profit sensitivity gap	**19,158,751**	**(3,042,815)**	**(6,299,627)**	**4,531,744**	**886,947**	**(15,459,640)**	**349,422**	**124,782**	

* This is arrived at after deducting individual impairment allowance and collective impairment allowance (impaired portion only) from impaired loans/financing.

39 Interest/ Profit Rate Risk (Cont'd)

Group 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/ 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	32,175,132	2,587,242	835,066	1,837,683	489,254	1,347,908	-	39,272,285	5.41
- impaired *	-	-	-	-	-	366,072	-	366,072	-
Others	-	-	-	-	-	2,033,907	1,392,235	3,426,142	-
Total Assets	51,140,797	6,601,038	1,043,652	4,368,913	701,324	8,628,332	7,609,472	80,093,528	
LIABILITIES AND EQUITY									
Deposits from customers	28,889,801	5,936,479	6,754,803	3,859,634	763,979	11,412,151	1,120,250	58,737,097	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
Recourse obligation on loans sold to Cagamas Berhad	-	-	-	-	-	-	-	-	-
Subordinated bonds	-	-	-	-	1,015,200	-	-	1,015,200	4.70
Others	-	-	-	-	-	3,536,903	1,209,253	4,746,156	
Total Liabilities	32,902,726	6,100,508	6,906,706	3,866,049	1,784,287	21,038,973	2,329,503	74,928,752	
Equity	-	-	-	-	-	5,164,776	-	5,164,776	
Total Liabilities and Equity	32,902,726	6,100,508	6,906,706	3,866,049	1,784,287	26,203,749	2,329,503	80,093,528	
On-balance sheet interest/profit sensitivity gap	18,238,071	500,530	- 5,863,054	502,864	- 1,082,963	- 17,575,417	5,279,969	-	
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	18,763,503	690,362	(4,378,293)	973,560	(677,000)	(17,575,417)	5,279,969	3,076,684	

* This is arrived at after deducting individual impairment allowance and collective impairment allowance (impaired portion only) from impaired loans/financing.

39 Interest/ Profit Rate Risk (Cont'd)

Bank 31 Dec 2012	**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 %**
	←		**Non-trading book**			→			
ASSETS									
Cash and short term funds	**8,917,122**	**-**	**-**	**-**	**-**	**2,096,995**	**-**	**11,014,117**	**2.87**
Securities purchased under resale agreements	**2,033,384**	**399,962**	**-**	**-**	**-**	**-**	**-**	**2,433,346**	**3.01**
Deposits and placements with banks and other financial institutions	**-**	**2,630,501**	**2,014,967**	**-**	**-**	**-**		**4,645,468**	**2.51**
Financial assets held-for-trading	**-**	**-**	**-**	**-**	**-**	**-**	**4,414,598**	**4,414,598**	**3.17**
Financial investments available-for-sale	**558,892**	**504,842**	**745,480**	**4,169,570**	**285,350**	**16,908**	**-**	**6,281,042**	**3.30**
Loans, advances and financing									
- performing	**29,947,805**	**1,926,871**	**323,888**	**143,813**	**207,444**	**908,605**	**-**	**33,458,426**	**4.97**
- impaired*	**-**	**-**	**-**	**-**	**-**	**323,590**	**-**	**323,590**	**-**
Others	**-**	**-**	**-**	**-**	**-**	**2,418,714**	**1,966,962**	**4,385,676**	**-**
Total Assets	**41,457,203**	**5,462,176**	**3,084,335**	**4,313,383**	**492,794**	**5,764,812**	**6,381,560**	**66,956,263**	
LIABILITIES AND EQUITY									
Deposits from customers	**24,659,692**	**3,767,087**	**7,433,037**	**717,905**	**-**	**10,755,154**	**3,965,383**	**51,298,258**	**2.00**
Deposits and placements from banks and other financial institutions	**3,080,800**	**893,481**	**54,322**	**4,620**	**3,676**	**1,970,372**	**-**	**6,007,271**	**1.23**
Bills and acceptances payable	**5,711**	**1,237**	**-**	**-**	**-**	**481,975**	**-**	**488,923**	**2.43**
Subordinated bonds	**-**	**-**	**-**	**500,000**	**512,591**	**-**	**-**	**1,012,591**	**4.70**
Others	**-**	**-**	**-**	**-**	**-**	**1,561,406**	**1,075,384**	**2,636,790**	**-**
Total Liabilities	**27,746,203**	**4,661,805**	**7,487,359**	**1,222,525**	**516,267**	**14,768,907**	**5,040,767**	**61,443,833**	
Equity	**-**	**-**	**-**	**-**	**-**	**5,512,430**	**-**	**5,512,430**	
Total Liabilities and Equity	**27,746,203**	**4,661,805**	**7,487,359**	**1,222,525**	**516,267**	**20,281,337**	**5,040,767**	**66,956,263**	
On-balance sheet interest sensitivity gap	**13,711,000**	**800,371**	**- 4,403,024**	**3,090,858**	**- 23,473**	**- 14,516,525**	**1,340,793**	**-**	
Off-balance sheet interest sensitivity gap									
Interest rate contracts									
- futures	**-**	**152,950**	**- 92,950**	**- 60,000**	**-**	**-**	**-**	**-**	
- options	**- 165,000**	**- 190,000**	**-**	**355,000**	**-**	**-**	**-**	**-**	
- swaps	**2,392,235**	**(2,888,505)**	**376,076**	**- 74,593**	**319,569**	**-**	**-**	**124,782**	
Total interest sensitivity gap	**15,938,235**	**(2,125,184)**	**(4,119,898)**	**3,311,265**	**296,096**	**(14,516,525)**	**1,340,793**	**124,782**	

* This is arrived at after deducting individual impairment allowance and collective impairment allowance (impaired portion only) from impaired loans.

39 Interest/ Profit Rate Risk (Cont'd)

Bank 31 Dec 2011	← Up to 1 month RM'000	>1 - 3 months RM'000	Non-trading book >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	1,189,372	-	31,535,880	4.98
- impaired*	-	-	-	-	-	317,329	-	317,329	-
Others	-	-	-	-	-	2,253,868	1,534,788	3,788,656	-
Total Assets	44,839,336	6,540,220	3,148,915	2,660,902	491,410	8,540,325	7,535,309	73,756,417	
LIABILITIES AND EQUITY									
Deposits from customers	25,649,269	4,904,025	6,016,806	3,844,952	763,979	10,953,538	942,053	53,074,622	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	-	-	-	-	-	3,429,277	1,370,919	4,800,196	-
Total Liabilities	29,186,751	5,068,054	6,168,709	3,851,366	1,784,287	20,461,170	2,312,972	68,833,309	
Equity	-	-	-	-	-	4,923,108	-	4,923,108	
Total Liabilities and Equity	29,186,751	5,068,054	6,168,709	3,851,366	1,784,287	25,384,278	2,312,972	73,756,417	
On-balance sheet interest sensitivity gap	15,652,585	1,472,166	- 3,019,794	- 1,190,464	- 1,292,877	- 16,843,953	5,222,337	-	
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)	(16,843,953)	5,222,337	3,076,684	

* This is arrived at after deducting individual impairment allowance and collective impairment allowance (impaired portion only) 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 2012	31 Dec 2011	**31 Dec 2012**	31 Dec 2011
	RM'000	RM'000	**RM'000**	RM'000
Carrying amount of assets and collateral pledged				
- Sold under repurchase agreements	**223,467**	192,401	**-**	-
- Collateral pledged on derivative contracts (ISDA*)	**50,702**	64,550	**50,702**	64,550
Fair value of assets and collateral accepted				
- Securities bought under reverse repurchase agreement	**3,198,017**	3,682,969	**3,198,017**	3,682,969
- Securities sold under repurchase agreement	**232,875**	220,973	**232,875**	220,973
- Collateral accepted on derivative contracts (ISDA*)	**33,470**	46,480	**33,470**	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 at 31 December.

	Group			
	31 Dec 2012	**31 Dec 2012**	31 Dec 2011	31 Dec 2011
	Carrying amount	**Fair Value**	Carrying amount	Fair Value
	RM'000	**RM'000**	RM'000	RM'000
Financial Assets				
Cash and short term funds	**12,663,437**	**12,663,437**	21,603,227	21,603,227
Securities purchased under resale agreements	**2,433,346**	**2,433,346**	3,682,969	3,682,969
Deposits and placements with banks and other financial institutions	**2,992,993**	**2,992,993**	651,778	651,778
Financial Assets Held-for-Trading	**4,597,107**	**4,597,107**	6,217,237	6,217,237
Financial Investments Available-for-Sale	**7,546,325**	**7,546,325**	4,873,818	4,873,818
Loans, advances and financing	**42,265,895**	**42,230,173**	39,638,357	39,661,061
Financial Liabilities				
Deposits from customers	**59,938,046**	**59,890,733**	58,737,097	57,928,780
Deposits and placements from banks and other financial institutions	**6,117,046**	**6,087,312**	9,908,962	9,839,270
Bills and acceptances payable	**504,349**	**504,349**	521,337	521,337
Multi-Currency Sukuk Programme	**500,000**	**502,169**	-	-
Subordinated bonds	**1,012,591**	**1,048,027**	1,015,200	1,038,482

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 at 31 December.

	Bank			
	31 Dec 2012 Carrying amount RM'000	**31 Dec 2012 Fair Value RM'000**	31 Dec 2011 Carrying amount RM'000	31 Dec 2011 Fair Value RM'000
Financial Assets				
Cash and short term funds	**11,014,117**	**11,014,117**	20,292,272	20,292,272
Securities purchased under resale agreements	**2,433,346**	**2,433,346**	3,682,969	3,682,969
Deposits and placements with banks and other financial institutions	**4,645,468**	**4,645,468**	3,687,058	3,687,058
Financial Assets Held-for-Trading	**4,414,598**	**4,414,598**	6,000,521	6,000,521
Financial Investments Available-for-Sale	**6,281,042**	**6,281,042**	4,451,732	4,451,732
Loans, advances and financing	**33,782,016**	**33,752,873**	31,853,209	31,880,799
Financial Liabilities				
Deposits from customers	**51,298,258**	**51,281,490**	53,074,622	52,304,358
Deposits and placements from banks and other financial institutions	**6,007,271**	**6,007,255**	9,429,554	9,429,530
Bills and acceptances payable	**488,923**	**488,923**	513,737	513,737
Subordinated bonds	**1,012,591**	**1,048,027**	1,015,200	1,038,482

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
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
Multi-Currency Sukuk Programme
The fair value of subordinated bonds and the Multi-Currency Sukuk Programme were 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 2012	31 Dec 2011	**31 Dec 2012**	31 Dec 2011
Year	**RM'000**	RM'000	**RM'000**	RM'000
Less than one year	**35,082**	32,648	**28,289**	29,778
Between one and three years	**40,146**	38,337	**34,963**	37,686
Between three and five years	**25,369**	24,082	**25,369**	24,082
More than five years	**11,787**	12,007	**11,787**	12,007
	112,384	107,074	**100,408**	103,553

43 Capital Commitments

	Group		*Bank*	
	31 Dec 2012	31 Dec 2011	**31 Dec 2012**	31 Dec 2011
	RM'000	RM'000	**RM'000**	RM'000
Capital expenditure commitments:				
<u>Property and equipment</u>				
- Authorised and contracted , but not provided for	**4,930**	4,829	**1,441**	3,442
- Authorised but not contracted for	**1,234**	1,642	**875**	909
	6,164	6,471	**2,316**	4,351

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	**2012 Number ('000)**	**Weighted average exercise price £**	2011 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	**-**		-	

	2012 RM'000	2011 RM'000
Compensation cost recognised during the year	**-**	-

Bank

Year	**2012 Number ('000)**	**Weighted average exercise price £**	2011 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	**-**		-	

	2012 RM'000	2011 RM'000
Compensation cost recognised during the year	**-**	-

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	**2012 Number ('000)**	**Weighted average exercise price £**	2011 Number ('000)	Weighted average exercise price £
Outstanding at 1 January	**4,620**	**4.14**	5,016	4.13
Granted in the year	**710**	**4.46**	435	5.10
Exercised in the year	**(1,611)**	**3.01**	(255)	6.00
Lapsed in the year	**(439)**	**4.09**	(576)	3.95
Outstanding at 31 December	**3,280**	**4.76**	4,620	4.14
Options vested at 31 December	**1,611**		255	

	2012 RM'000	2011 RM'000
Compensation cost recognised during the year	**4,250**	9,406

Bank

Year	**2012 Number ('000)**	**Weighted average exercise price £**	2011 Number ('000)	Weighted average exercise price £
Outstanding at 1 January	**4,586**	**4.13**	4,977	4.12
Granted in the year	**693**	**4.46**	421	5.10
Exercised in the year	**(1,599)**	**3.00**	(252)	6.00
Lapsed in the year	**(436)**	**4.08**	(560)	3.96
Outstanding at 31 December	**3,244**	**4.76**	4,586	4.13
Options vested at 31 December	**1,599**		252	

	2012 RM'000	2011 RM'000
Compensation cost recognised during the year	**3,841**	9,294

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*	
	2012	2011	**2012**	2011
	Number	Number	**Number**	Number
	('000)	('000)	**('000)**	('000)
Outstanding at 1 January	**704**	447	**693**	447
Additions during the year	**2,604**	328	**2,597**	317
Released in the year	**(800)**	(71)	**(795)**	(71)
Outstanding at 31 December	**2,508**	704	**2,495**	693
	2012	2011	**2012**	2011
	RM'000	RM'000	**RM'000**	RM'000
Compensation cost recognised during the year	**15,230**	17,046	**14,858**	16,798

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan is £5.67 (2011: £6.50). The closing price of the HSBC share at 31 December 2012 was £6.47 (2011: £4.91). The weighted average remaining vesting period as at 31 December 2012 was 2.89 years (2011: 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*	
	2012	2011	**2012**	2011
	Number	Number	**Number**	Number
	('000)	('000)	**('000)**	('000)
Outstanding at 1 January	**-**	122	**-**	122
Released in the year	**-**	- 122	**-**	- 122
Lapsed in the year	**-**	-	**-**	-
Outstanding at 31 December	**-**	-	**-**	-
	2012	2011	**2012**	2011
	RM'000	RM'000	**RM'000**	RM'000
Compensation cost recognised during the year	**-**	-	**-**	-

No shares were purchased by HSBC for awards under the Achievement Shares Award in 2012 and 2011. The closing price of the HSBC share at 31 December 2012 was £6.47 (2011: £4.91). The weighted average remaining vesting period as at 31 December 2012 was Nil (2011: Nil).

45 Explanation of transition to MFRSs

These are the Group and the Bank's first full year financial statements prepared in accordance with MFRSs.

In preparing its opening MFRS statement of financial position, the Group and the Bank have adjusted amounts reported previously in financial statements prepared in accordance with the previous FRSs. An explanation of how the transition from the previous FRSs to the new MFRSs has affected the Group and the Bank's financial position is set out in the following tables and the notes that accompany these tables. The financial impact of the transition to MFRSs was effected retrospectively.

i) Reconciliation of financial position

			Effect of transition to	
		FRSs	MFRSs	MFRSs
Group			1 Jan 2011	
Assets	**Note**	**RM'000**	**RM'000**	**RM'000**
Cash and short term funds		11,815,604	-	11,815,604
Securities purchased under resale agreements		6,467,863	-	6,467,863
Deposits and placements with banks and other financial institutions		330,981	-	330,981
Financial Assets Held-for-Trading		4,895,060	-	4,895,060
Financial Investments Available-for-Sale		3,400,090	-	3,400,090
Loans, advances and financing	**45 iv) a**	34,076,044	398,065	34,474,109
Other assets	**45 iv) b**	2,023,553	(86,212)	1,937,341
Statutory deposits with Bank Negara Malaysia		221,827	-	221,827
Property and equipment		318,481	-	318,481
Intangible assets		60,621	-	60,621
Deferred tax assets	**45 iv) c**	168,344	83,830	252,174
Total assets		63,778,468	395,683	64,174,151
Liabilities				
Deposits from customers	**45 iv) b**	48,339,424	153,050	48,492,474
Deposits and placements from banks and other financial institutions		6,853,048	-	6,853,048
Bills and acceptances payable		429,229	-	429,229
Other liabilities	**45 iv) b**	2,354,493	(106,993)	2,247,500
Recourse obligation on loans sold to Cagamas Berhad		374,991	-	374,991
Provision for taxation	**45 iv) c**	103,158	148,519	251,677
Subordinated bonds		1,003,039	-	1,003,039
Total liabilities		59,457,382	194,576	59,651,958
Equity				
Share capital		114,500	-	114,500
Reserves	**45 iv) f**	3,956,586	201,107	4,157,693
Proposed dividend		250,000	-	250,000
Total equity attributable to owner of the Bank		4,321,086	201,107	4,522,193
Total liabilities and equity		63,778,468	395,683	64,174,151
Commitments and Contingencies		87,503,362	(147,534)	87,355,828

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45 Explanation of transition to MFRSs (Cont'd)

i) Reconciliation of financial position (Cont'd)

Bank		**FRSs**	**Effect of transition to MFRSs 1 Jan 2011**	**MFRSs**
Assets	**Note**	**RM'000**	**RM'000**	**RM'000**
Cash and short term funds		10,658,860	-	10,658,860
Securities purchased under resale agreements		6,467,863	-	6,467,863
Deposits and placements with banks and other financial institutions		1,471,815	-	1,471,815
Financial Assets Held-for-Trading		4,747,054	-	4,747,054
Financial Investments Available-for-Sale		3,069,425	-	3,069,425
Loans, advances and financing	**45 iv) a**	29,439,768	232,438	29,672,206
Other assets	**45 iv) b**	1,978,890	(83,762)	1,895,128
Statutory deposits with Bank Negara Malaysia		187,098	-	187,098
Investments in subsidiary companies		660,021	-	660,021
Property and equipment		302,056	-	302,056
Intangible assets		59,122	-	59,122
Deferred tax assets	**45 iv) c**	150,342	64,966	215,308
Total assets		59,192,314	213,642	59,405,956
Liabilities				
Deposits from customers	**45 iv) b**	44,556,909	5,027	44,561,936
Deposits and placements from banks and other financial institutions		6,261,536	-	6,261,536
Bills and acceptances payable		423,698	-	423,698
Other liabilities	**45 iv) b**	2,277,196	(104,114)	2,173,082
Recourse obligation on loans sold to Cagamas Berhad		374,991	-	374,991
Provision for taxation	**45 iv) c**	98,710	126,906	225,616
Subordinated bonds		1,003,039	-	1,003,039
Total liabilities		54,996,079	27,819	55,023,898
Equity				
Share capital		114,500	-	114,500
Reserves	**45 iv) f**	3,831,735	185,823	4,017,558
Proposed dividend		250,000	-	250,000
Total equity attributable to owner of the Bank		4,196,235	185,823	4,382,058
Total liabilities and equity		59,192,314	213,642	59,405,956
Commitments and Contingencies		85,680,212	-	85,680,212

45 Explanation of transition to MFRSs (Cont'd)

i) Reconciliation of financial position (Cont'd)

			Effect of transition to	
		FRSs	MFRSs	MFRSs
Group			31 Dec 2011	
Assets	**Note**	**RM'000**	**RM'000**	**RM'000**
Cash and short term funds		21,603,227	-	21,603,227
Securities purchased under resale agreements		3,682,969	-	3,682,969
Deposits and placements with banks and other financial institutions		651,778	-	651,778
Financial Assets Held-for-Trading		6,217,237	-	6,217,237
Financial Investments Available-for-Sale		4,873,818	-	4,873,818
Loans, advances and financing	**45 iv) a**	39,156,932	481,425	39,638,357
Other assets	**45 iv) b**	1,941,383	(186,862)	1,754,521
Statutory deposits with Bank Negara Malaysia		1,096,060	-	1,096,060
Property and equipment		354,032	-	354,032
Intangible assets		53,263	-	53,263
Deferred tax assets	**45 iv) c**	94,245	74,021	168,266
Total assets		79,724,944	368,584	80,093,528
Liabilities				
Deposits from customers	**45 iv) b**	58,523,846	213,251	58,737,097
Deposits and placements from banks and other financial institutions		9,908,962	-	9,908,962
Bills and acceptances payable		521,337	-	521,337
Other liabilities	**45 iv) b**	4,762,900	(216,310)	4,546,590
Provision for taxation	**45 iv) c**	53,103	146,463	199,566
Subordinated bonds		1,015,200	-	1,015,200
Total liabilities		74,785,348	143,404	74,928,752
Equity				
Share capital		114,500	-	114,500
Reserves	**45 iv) f**	4,525,096	225,180	4,750,276
Proposed dividend		300,000	-	300,000
Total equity attributable to owner of the Bank		4,939,596	225,180	5,164,776
Total liabilities and equity		79,724,944	368,584	80,093,528
Commitments and Contingencies		119,168,960	(192,401)	118,976,559

45 Explanation of transition to MFRSs (Cont'd)

i) Reconciliation of financial position (Cont'd)

Bank		**FRSs**	**Effect of transition to MFRSs**	**MFRSs**
			31 Dec 2011	
Assets	**Note**	**RM'000**	**RM'000**	**RM'000**
Cash and short term funds		20,292,272	-	20,292,272
Securities purchased under resale agreements		3,682,969	-	3,682,969
Deposits and placements with banks and other financial institutions		3,687,058	-	3,687,058
Financial Assets Held-for-Trading		6,000,521	-	6,000,521
Financial Investments Available-for-Sale		4,451,732	-	4,451,732
Loans, advances and financing	**45 iv) a**	31,610,586	242,623	31,853,209
Other assets	**45 iv) b**	1,913,656	(179,019)	1,734,637
Statutory deposits with Bank Negara Malaysia		867,498	-	867,498
Investments in subsidiary companies		660,021	-	660,021
Property and equipment		335,106	-	335,106
Intangible assets		52,802	-	52,802
Deferred tax assets	**45 iv) c**	79,063	59,529	138,592
Total assets		73,633,284	123,133	73,756,417
Liabilities				
Deposits from customers	**45 iv) b**	53,047,615	27,007	53,074,622
Deposits and placements from banks and other financial institutions		9,429,554	-	9,429,554
Bills and acceptances payable		513,737	-	513,737
Other liabilities	**45 iv) b**	4,845,377	(213,499)	4,631,878
Provision for taxation	**45 iv) c**	46,265	122,053	168,318
Subordinated bonds		1,015,200	-	1,015,200
Total liabilities		68,897,748	(64,439)	68,833,309
Equity				
Share capital		114,500	-	114,500
Reserves	**45 iv) f**	4,321,036	187,572	4,508,608
Proposed dividend		300,000	-	300,000
Total equity attributable to owner of the Bank		4,735,536	187,572	4,923,108
Total liabilities and equity		73,633,284	123,133	73,756,417
Commitments and Contingencies		116,742,039	-	116,742,039

45 Explanation of transition to MFRSs (Cont'd)

ii) Reconciliation of statement of profit or loss and other comprehensive income

Group	Note	FRSs	Effect of transition to MFRSs	MFRSs
		Year to date 31 Dec 2011		
		RM'000	RM'000	RM'000
Revenue		3,989,403	(34,030)	3,955,373
Interest income	**45 iv) e**	2,200,121	55	2,200,176
Interest expense	**45 iv) e**	(1,049,302)	22,352	(1,026,950)
Net interest income		1,150,819	22,407	1,173,226
Fee and commission income		493,352	-	493,352
Fee and commission expense		(24,350)	-	(24,350)
Net fee and commission income		469,002	-	469,002
Net trading income	**45 iv) e**	723,616	(30,204)	693,412
Income from Islamic banking operations	**45 iv) e**	431,267	1,561	432,828
Other operating income		33,843	-	33,843
Operating income before impairment losses		2,808,547	(6,236)	2,802,311
Loans / financing impairment charges and other credit risk provisions	**45 iv) e**	(198,048)	38,062	(159,986)
Impairment losses on intangible assets		(5,167)	-	(5,167)
Net operating income		2,605,332	31,826	2,637,158
Other operating expenses		(1,214,548)	-	(1,214,548)
Profit before income tax expense		1,390,784	31,826	1,422,610
Income tax expense	**45 iv) e**	(355,154)	(7,753)	(362,907)
Profit for the year	**45 iv) e**	1,035,630	24,073	1,059,703
Other comprehensive income				
Revaluation reserve:				
Surplus on revaluation property		11,270	-	11,270
Deferred tax adjustment on revaluation reserve		(236)	-	(236)
Cash flow hedge				
Effective portion of changes in fair value		854	-	854
Fair value reserve				
Change in fair value		10,251	-	10,251
Amount transferred to profit or loss		(1,432)	-	(1,432)
Income tax relating to components of other comprehensive income		(2,417)	-	(2,417)
Other comprehensive income for the year, net of income tax		18,290	-	18,290
Total comprehensive income for the year		1,053,920	24,073	1,077,993
Profit attributable to owner of the Bank		1,035,630	24,073	1,059,703
Total comprehensive income attributable to owner of the Bank		1,053,920	24,073	1,077,993
Basic earnings per RM0.50 ordinary share		452.2 sen	10.5 sen	462.8 sen
Dividends per RM0.50 ordinary share (net)				
- interim dividend paid		87.3 sen	-	87.3 sen
- proposed final		131.0 sen	-	131.0 sen

45 Explanation of transition to MFRSs (Cont'd)

ii) Reconciliation of statement of profit or loss and other comprehensive income (Cont'd)

Bank		FRSs	Effect of transition to MFRSs	MFRSs
		Year to date 31 Dec 2011		
		RM'000	RM'000	RM'000
Revenue	**Note**	3,595,880	(30,149)	3,565,731
Interest income	**45 iv) e**	2,252,409	55	2,252,464
Interest expense	**45 iv) e**	(1,049,302)	22,352	(1,026,950)
Net interest income		1,203,107	22,407	1,225,514
Fee and commission income		493,352	-	493,352
Fee and commission expense		(24,350)	-	(24,350)
Net fee and commission income		469,002	-	469,002
Net trading income	**45 iv) e**	718,949	(30,204)	688,745
Other operating income		131,170	-	131,170
Operating income before impairment losses		2,522,228	(7,797)	2,514,431
Loans / financing impairment charges and other credit risk provisions	**45 iv) e**	(73,711)	10,130	(63,581)
Impairment losses on intangible assets		(5,167)	-	(5,167)
Net operating income		2,443,350	2,333	2,445,683
Other operating expenses		(1,150,363)	-	(1,150,363)
Profit before income tax expense		1,292,987	2,333	1,295,320
Income tax expense	**45 iv) e**	(335,921)	(584)	(336,505)
Profit for the year	**45 iv) e**	957,066	1,749	958,815
Other comprehensive income				
Revaluation reserve:				
Surplus on revaluation property		11,270	-	11,270
Deferred tax adjustment on revaluation reserve		(236)	-	(236)
Cash flow hedge				
Effective portion of changes in fair value		854	-	854
Fair value reserve				
Change in fair value		9,872	-	9,872
Amount transferred to profit or loss		(1,432)	-	(1,432)
Income tax relating to components of other comprehensive income		(2,322)	-	(2,322)
Other comprehensive income for the year, net of income tax		18,006	-	18,006
Total comprehensive income for the year		975,072	1,749	976,821
Profit attributable to owner of the Bank		957,066	1,749	958,815
Total comprehensive income attributable to owner of the Bank		975,072	1,749	976,821
Basic earnings per RM0.50 ordinary share		417.9 sen	0.8 sen	418.7 sen
Dividends per RM0.50 ordinary share (net)				
- interim dividend paid		87.3 sen	-	87.3 sen
- proposed final		131.0 sen	-	131.0 sen

45 Explanation of transition to MFRSs (Cont'd)

iii) Reconciliation of statement of cash flows

	FRSs	Effect of transition to MFRSs	MFRSs	FRSs	Effect of transition to MFRSs	MFRSs
	Year to date 31 Dec 2011			Year to date 31 Dec 2011		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
		Group			Bank	
Cash Flows from Operating Activities						
Profit before income tax expense	1,390,784	31,826	1,422,610	1,292,987	2,333	1,295,320
Adjustments for :						
Property and equipment written off	129	-	129	78	-	78
Reversal of capitalised charges for intangible assets	810	-	810	-	-	-
Depreciation of property and equipment	41,233	-	41,233	35,617	-	35,617
Amortisation of intangible assets	25,463	-	25,463	25,230	-	25,230
Net gains on disposal of property and equipment	(303)	-	(303)	(303)	-	(303)
Net gains on disposal of property, plant and equipment recognised in Islamic Banking	(2)	-	(2)	-	-	-
Net downwards revaluation on property	11	-	11	11	-	11
Impairment of intangibles	5,167	-	5,167	5,167	-	5,167
Net transfer of property and equipment to subsidiary	-	-	-	527	-	527
Share-based payment transactions	14,590	-	14,590	14,229	-	14,229
Dividend income	(1,176)	-	(1,176)	(1,176)	-	(1,176)
Operating profit before changes in operating assets	1,476,706	31,826	1,508,532	1,372,367	2,333	1,374,700
Decrease/ (Increase) in operating assets						
Securities purchased under resale agreements	2,784,894	-	2,784,894	2,784,894	-	2,784,894
Deposits and placements with banks and other financial institutions	(320,797)	-	(320,797)	(2,215,243)	-	(2,215,243)
Financial Assets Held-for-Trading	(1,322,177)	-	(1,322,177)	(1,253,467)	-	(1,253,467)
Loans, advances and financing	(5,080,888)	(83,360)	(5,164,248)	(2,170,818)	(10,185)	(2,181,003)
Other assets	95,185	100,935	196,120	78,249	95,542	173,791
Statutory deposits with Bank Negara Malaysia	(874,233)	-	(874,233)	(680,400)	-	(680,400)
Increase/ (Decrease) in operating liabilities						
Deposits from customers	10,184,422	60,201	10,244,623	8,490,706	21,980	8,512,686
Deposits and placements from banks and other financial institutions	3,055,914	-	3,055,914	3,168,018	-	3,168,018
Bills and acceptances payable	92,108	-	92,108	90,039	-	90,039
Other liabilities	2,408,407	(109,317)	2,299,090	2,568,181	(109,385)	2,458,796
Recourse obligation on loans sold to Cagamas Berhad	(374,991)	-	(374,991)	(374,991)	-	(374,991)
Net cash generated from operating activities	12,124,550	285	12,124,835	11,857,535	285	11,857,820
Income tax paid	(333,663)	-	(333,663)	(319,645)	-	(319,645)
Utilisation of zakat provisions	(100)	-	(100)	-	-	-
Net cash generated from operating activities	11,790,787	285	11,791,072	11,537,890	285	11,538,175
Cash Flows from Investing Activities						
Purchase of property and equipment	(65,815)	-	(65,815)	(58,174)	-	(58,174)
Purchase of intangible assets	(24,082)	-	(24,082)	(24,077)	-	(24,077)
Proceeds from disposal of property and equipment	466	-	466	464	-	464
Financial Investments Available-for-Sale	(1,464,909)	(285)	(1,465,194)	(1,373,867)	(285)	(1,374,152)
Dividends received	1,176	-	1,176	1,176	-	1,176
Net cash used in investing activities	(1,553,164)	(285)	(1,553,449)	(1,454,478)	(285)	(1,454,763)
Cash Flow from Financing Activity						
Dividends paid	(450,000)	-	(450,000)	(450,000)	-	(450,000)
Net cash used in financing activity	(450,000)	-	(450,000)	(450,000)	-	(450,000)
Net increase in Cash and Cash Equivalents	9,787,623	-	9,787,623	9,633,412	-	9,633,412
Cash and Cash Equivalents at beginning of year	11,815,604	-	11,815,604	10,658,860	-	10,658,860
Cash and Cash Equivalents at end of year	21,603,227	-	21,603,227	20,292,272	-	20,292,272
Analysis of Cash and Cash Equivalents						
Cash and short-term funds	21,603,227	-	21,603,227	20,292,272	-	20,292,272

The comparative cash flow statements have been restated for the effects of the change in accounting policies as disclosed in Note 2e) Change in Accounting Policies. However, the differences between the statement of cash flows presented under the MFRSs and the statement of cash flows presented under FRSs are not material.

45 Explanation of transition to MFRSs (Cont'd)

iv) Notes to reconciliations

a) Loans, advances and financing

The changes that affected the loans, advances and financing are as follows:-

	Note	31 Dec 2011 Group RM'000	31 Dec 2011 Bank RM'000	1 Jan 2011 Group RM'000	1 Jan 2011 Bank RM'000
Collective impairment allowance decrease		220,398	210,283	180,348	188,537
Individual impairment allowance decrease		68,626	32,340	70,183	43,901
Total (exclude financing recognised)		289,024	242,623	250,531	232,438
Financing recognised*		192,401	-	147,534	-
Increase loans, advances and financing	**45 i)**	481,425	242,623	398,065	232,438
Reconciliation to retained earnings/current year profits or loss					
Increase retained earnings	**45 iv) d**	250,531	232,438	250,531	232,438
Increase current profits	**45 iv) e**	38,493	10,185	-	-
		289,024	242,623	250,531	232,438

In the previous years, collective impairment allowances were based on a percentage (1.5%) of the total outstanding loans/financing portfolio net of individual impairment allowances to cover future potential losses from the loans/financing portfolio. Upon transition to MFRSs, the Group and the Bank employ a MFRS compliant collective impairment allowance model where collective impairment allowances are set aside to cover loans/financing losses incurred but the loan/financing has not been individually identified as impaired at reporting date. Additionally, impairment provisions for homogeneous groups of loans/financing that are not considered individually significant are now computed under appropriate collective impairment allowance models instead of being individually assessed. The accounting policy for collective impairment of loans, advances and financing after the transition to MFRSs is disclosed in Note 2(e)(i) and Note 3(m).

*Prior to its convergence to the MFRS framework, the BNM Guidelines on Financial Reporting for Islamic Banking Institutions requires securities sold in a sell and buyback agreement ('SBBA') to be derecognised from the financial statements and the commitment to buy back the securities at a future date is recognised as an off balance sheet liability. Upon transition to MFRSs, financial assets sold under the SBBA are recorded as financing (under claims on customers under acceptance credits) and the "repurchase agreement" is reflected as an on balance sheet liability.The accounting policy for SBBA is disclosed in Note 2e(iii). This adjustment does not impact retained earnings or current year profit or loss.

b) Other assets, other liabilities and deposits from customers

	Note	31 Dec 2011 Group RM'000	31 Dec 2011 Bank RM'000	1 Jan 2011 Group RM'000	1 Jan 2011 Bank RM'000
Other assets:					
Derivative financial assets decrease		(189,554)	(179,019)	(86,212)	(83,762)
Other assets increase		2,692	-	-	-
Decrease other assets	**45 i)**	(186,862)	(179,019)	(86,212)	(83,762)
Other liabilities:					
Derivative financial liabilities decrease		217,327	213,499	115,269	104,114
Interest/ profit payable decrease		2,548	-	2,632	-
Other creditors increase		(3,565)	-	(10,908)	-
Decrease other liabilities	**45 i)**	216,310	213,499	106,993	104,114
Deposit from customers:					
Other creditors increase*		(192,401)	-	(147,534)	-
Increase structured deposits	**45 i)**	(20,850)	(27,007)	(5,516)	(5,027)
Increase deposit from customers		(213,251)	(27,007)	(153,050)	(5,027)
Total (include SBBA related)		(183,803)	7,473	(132,269)	15,325
Total (exclude SBBA related)		8,598	7,473	15,265	15,325

* SBBA related. See note 45 iv) a . This adjustment does not impact retained earnings or current year profit or loss.

	Note	31 Dec 2011 Group RM'000	31 Dec 2011 Bank RM'000	1 Jan 2011 Group RM'000	1 Jan 2011 Bank RM'000
Reconciliation to retained earnings/current year profit or loss					
Increase retained earnings	**45 iv) d**	15,265	15,325	15,265	15,325
Decrease current profits	**45 iv) e**	(6,667)	(7,852)	-	-
		8,598	7,473	15,265	15,325

In the previous years, structured deposits were measured at amortised cost using the effective interest method. Upon transition to MFRSs, structured deposits are classified as trading liabilities and are measured at fair value. The accounting policy for the fair value measurement of structured deposits is as disclosed in Note 2(e)(ii) and Note 3(j) of the audited financial statements of the Group and Bank for the financial year ended 31 December 2012.

45 Explanation of transition to MFRSs (Cont'd)

iv) Notes to reconciliations (Cont'd)

c) Deferred tax assets and provision for taxation

		31 Dec 2011		1 Jan 2011	
		Group	Bank	Group	Bank
Deferred tax assets	**Note**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Increase in deferred tax assets on collective impairment allowance		74,021	59,529	83,830	64,966
Increase deferred tax assets	**45 i)**	74,021	59,529	83,830	64,966
Provision for taxation					
Higher tax liability on positive fair valuation of structured deposits		(2,149)	(1,868)	(3,816)	(3,831)
Higher tax liability upon decrease in collective and individual impairment allowances		(144,314)	(120,185)	(144,703)	(123,075)
Increase provision for tax	**45 i)**	(146,463)	(122,053)	(148,519)	(126,906)
Total		(72,442)	(62,524)	(64,689)	(61,940)
Reconciliation to retained earnings/current year profit or loss					
Decrease retained earnings	**45 iv) d**	(64,689)	(61,940)	(64,689)	(61,940)
Decrease current profits	**45 iv) e**	(7,753)	(584)	-	-
		(72,442)	(62,524)	(64,689)	(61,940)

The decrease in collective impairment allowances resulted in higher deferred tax assets recognised.
Provision for tax liability increased upon positive fair valuation of structured deposits and decrease in collective and individual impairment allowances.

d) Retained earnings at 1 Jan 2011

		Group	Bank
	Note	**RM'000**	**RM'000**
Loans / financing impairment charges	**45 iv) a**	250,531	232,438
Net trading income	**45 iv) b**	15,265	15,325
Income tax expense	**45 iv) c**	(64,689)	(61,940)
Adjustment to increase retained earnings	**45 iv) f**	201,107	185,823

e) Statement of Profit or Loss

		Group	Bank
	Note	**RM'000**	**RM'000**
Interest income increase	**45 ii)**	55	55
Interest expense decrease	**45 ii)**	22,352	22,352
Net trading income decrease	**45 ii)**	(30,204)	(30,204)
Income from Islamic banking increase	**45 ii)**	1,561	-
Loans / financing impairment charges decrease	**45 ii)**	38,062	10,130
Income tax expense increase	**45 ii)**	(7,753)	(584)
Adjustment to increase current period profits	**45 ii) & 45 iv)f**	24,073	1,749
Reconciliation to statement of financial position			
Loans, advances and financing	**45 iv) a**	38,493	10,185
Other assets, other liabilities and deposits from customers	**45 iv) b**	(6,667)	(7,852)
Deferred tax assets and provision for taxation	**45 iv) c**	(7,753)	(584)
		24,073	1,749

f) Reserves

		31 Dec 2011		1 Jan 2011	
		Group	Bank	Group	Bank
	Note	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Retained earnings at 1 Jan 2011	**45 iv) d**	201,107	185,823	201,107	185,823
Statement of profit or loss	**45 iv) e**	24,073	1,749	-	-
	45 i)	225,180	187,572	201,107	185,823

45 Explanation of transition to MFRSs (Cont'd)

v) Capital Adequacy

The adjustments to the financial statements of the Group and the Bank as a result of the transition to the MFRS framework and the changes in accounting policies, as discussed above, also had consequential effects on the comparative capital adequacy ratios. These are summarised below:

	31 Dec 2011			
	Group		**Bank**	
	FRS	**MFRS**	**FRS**	**MFRS**
Tier 1 Capital (RM'000) *	4,572,303	4,723,462	4,368,409	4,512,361
Capital Base (RM'000) *	6,269,624	6,111,059	5,290,409	5,178,714
Tier 1 Capital Ratio % *	9.9%	10.3%	11.1%	11.5%
Risk Weighted Capital Ratio % *	13.6%	13.3%	13.4%	13.2%
Tier 1 Capital Ratio % *(net of proposed dividends)*	9.3%	9.6%	10.3%	10.7%
Risk Weighted Capital Ratio % *(net of proposed dividends)*	13.0%	12.6%	12.7%	12.4%

	1 Jan 2011			
	Group		**Bank**	
	FRS	**MFRS**	**FRS**	**MFRS**
Tier 1 Capital (RM'000) *	3,907,213	4,024,491	3,784,608	3,921,375
Capital Base (RM'000) *	5,499,517	5,367,346	4,647,349	4,557,297
Tier 1 Capital Ratio % *	10.2%	10.5%	11.0%	11.4%
Risk Weighted Capital Ratio % *	14.4%	14.0%	13.6%	13.3%
Tier 1 Capital Ratio % *(net of proposed dividends)*	9.6%	9.9%	10.3%	10.7%
Risk Weighted Capital Ratio % *(net of proposed dividends)*	13.7%	13.4%	12.8%	12.6%

** Inclusive of proposed dividends*