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

FINANCIAL STATEMENTS – 31 DECEMBER 2013

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

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
AND ITS SUBSIDIARY COMPANIES
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BOARD OF DIRECTORS

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

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

Baldev Singh s/o Gurdial Singh @ Nikah 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 @ Chng Yew Chye
Independent Non-Executive Director

Datuk Shireen Ann Zaharah Muhiudeen
Independent Non-Executive Director
(Appointed on 5 December 2013)

Lee Choo Hock
Independent Non-Executive Director
(Appointed on 5 December 2013)

PROFILE OF DIRECTORS

Peter Wong Tung Shun

Non-Independent Non-Executive Director /Chairman

Mr Wong was appointed 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 Mukhtar 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 Mukhtar 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 Mukhtar 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, the proprietorial and fund investment arm of HSBC from 2006 to 2008. He was the Deputy Chairman of 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 Muktar is also a Non-Executive Director of HSBC Amanah Malaysia Berhad.

Baldev Singh s/o Gurdial Singh @ Nikah 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 PriceWaterHouse 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 16 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 joined the Bank in 1989 as an Advisor and was appointed as an Executive Director and Adviser in January 1994 when the Bank was locally incorporated. In 2004, he relinquished his executive role and was appointed as Non-Executive Director. 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 until 1976. In 1977, he served as an Adviser (Assistant Governor) 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 (1977-2002).

Tan Sri Dato' Sulaiman also sits on the board of 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 as Senior Independent Director. 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 Credit Service (M) Berhad, Yayasan Tuanku Syed Sirajuddin and Yap Kim Fatt Corporation Sdn Bhd.

Ching Yew Chye @ Chng 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.

Datuk Shireen Ann Zaharah Muhiudeen
Independent Non-Executive Director
(Appointed on 5 December 2013)

Datuk Shireen was appointed on 5 December 2013. She serves as a member of the Risk Management Committee of the Bank. She graduated from Loyola Marymount University with a Master of Business Administration. She is currently the Managing Director of Corston-Smith Asset Management Sdn Bhd and Corston-Smith Asset Management (Singapore) Pte Ltd respectively. Prior to Corston-Smith, Datuk Shireen was the CEO of AIG Investment Corporation (Malaysia), and has over 25 years' experience in managing funds. She was named one of the 25 most influential women in Asia Pacific for Asset Management by Asian Investor in June 2011.

In addition to her current role, Datuk Shireen also sits on the Board of Integrax Berhad as an Independent Director and Chairman of the Governance Committee as well as a member of the Tender Committee.

Mr Lee Choo Hock
Independent Non-Executive Director
(Appointed on 5 December 2013)

Mr Lee was appointed on 5 December 2013. He serves as a member of the Audit Committee of the Bank. He is a member of the Institute of Chartered Accountants in England and Wales as well as the Malaysian Institute of Accountants. He began his career with Miller, Brener & Co., London, a professional accounting firm in 1975 and joined Maybank in 1982. Having worked with Maybank for 27 years, Mr Lee has built a successful career as a professional accountant. He served various management positions during his tenure with Malayan Banking Berhad until he retired in 2008 and last position was as the Executive Vice President, Head of Accounting Services and Treasury Back Office Operations. He has also served as a Director of a number of subsidiaries of Malayan Banking Berhad.

In addition to his current role, Mr Lee also sits on the Board of Kossan Rubber Industries Berhad and HSBC Amanah Malaysia Berhad.

BOARD RESPONSIBILITY AND OVERSIGHT

BOARD OF DIRECTORS

Composition of the Board

At the date of this report, the Board consists of nine (9) members; comprising two (2) non-independent executive Directors, one (1) non-independent non-executive Director and six (6) 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-Independent Non-Executive 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 key senior officers; acquisitions and disposals above pre-determined thresholds; and monitor the management's performance in implementing them.

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 its duties effectively, the Board has met seven (7) 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 for review at each of its meetings. At these meetings, the members also consider a variety of matters including the Bank's financial results, strategic decisions and corporate governance matters. The Board also receives 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. Minutes of every Board meeting are circulated to all Directors for their perusal prior to confirmation of the minutes at the following Board 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 2013 was as follows:

Name of members	Designation	Attendance / No. of meetings
Peter Wong Tung Shun	Chairman Non-Independent Non-Executive Director	6/7
Mukhtar Malik Hussain	Deputy Chairman and Chief Executive Officer Non-Independent Executive Director	7/7
Baldev Singh s/o Gurdial Singh @ Nikah Singh	Chief Financial Officer Non-Independent Executive Director	6/7
Tan Sri Dato' Sulaiman bin Sujak	Independent Non-Executive Director	7/7
Dato' Henry Sackville Barlow	Independent Non-Executive Director	7/7
Datuk Ramli bin Ibrahim	Independent Non-Executive Director	7/7
Ching Yew Chye @ Chng Yew Chye	Independent Non-Executive Director	7/7
Datuk Shireen Ann Zaharah Muhiudeen	Independent Non-Executive Director	1/1
Lee Choo Hock	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 Committees in the Bank are as follows:

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

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

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

In addition to the above Board Committees, the Bank has established various sub-committees to assist the Executive Committee and the Asset and Liability Management Committee in performing their roles and responsibilities and to assist the Chief Executive Officer in the day to day running of the Bank.

AUDIT COMMITTEE

Composition

The present members of the Audit Committee comprise:

§ Datuk Ramli bin Ibrahim (Chairman)
§ Tan Sri Dato' Sulaiman bin Sujak
§ Dato' Henry Sackville Barlow
§ Lee Choo Hock *(Appointed on 5 December 2013)*

Frequency of the Meetings

A total of four (4) Audit Committee meetings were held during the financial year 2013 and all members attended every meeting held except for Mr Lee.

Terms of Reference

The revised Terms of Reference as set out below were approved at the Audit Committee meeting held on 26 April 2012. No revisions were made to the Terms of Reference during the year.

<u>Membership</u>

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

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

The Chairman of the Committee shall be an independent director.

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.

<u>Meetings and Quorum</u>

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.

<u>Objective</u>

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.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee

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

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

    (i) any changes in accounting policies and practices;
    (ii) major judgemental areas;
    (iii) significant adjustments resulting from audit;
    (iv) the going concern assumptions and any qualifications;
    (v) compliance with accounting standards;
    (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 Bank'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 Bank's financial and accounting policies and practices.

3. To review and discuss with management the effectiveness of the Bank'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.

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 Bank 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.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

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 HSBC 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 Bank and changes thereto), all alternative accounting treatments that have been discussed with management together with the potential ramifications of using those alternatives, the nature of any significant adjustments, the going concern assumption, compliance with accounting standards and 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).

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.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

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 Bank's ability to record and report financial data and any fraud, whether material or not, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

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

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

17. To receive from the Compliance function reports on the treatment of substantiated complaints regarding accounting, internal accounting controls or auditing matters received through the HSBC Group Disclosure Line (or such other system as the HSBC Group Audit Committee) 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 the Bank's Regional Holding Company within the HSBC Group.

19. To agree with the Board the Bank'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 HSBC Group Audit Committee and/or HSBC 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.

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

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

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

26. To provide half-yearly certificates to the HSBC Group Audit Committee, or to any audit committee of an intermediate holding company in the form required by the HSBC 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 Bank and the HSBC Group.

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

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

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 HSBC Group Audit Committee and/or HSBC 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 Risk Management Committee comprise:

§ Dato' Henry Sackville Barlow (Chairman)
§ Tan Sri Dato' Sulaiman bin Sujak
§ Datuk Ramli bin Ibrahim
§ Ching Yew Chye @ Chng Yew Chye
§ Datuk Shireen Ann Zaharah Muhiudeen *(Appointed on 5 December 2013)*

Frequency of the Meetings

A total of six (6) Risk Management Committee meetings were held during the financial year of 2013 and all members attended every meeting held except for Datuk Shireen.

Terms of Reference

The revised Terms of Reference as set out below were tabled at the Risk Management Committee and Board of Directors meeting held on 09 November 2011 and 10 November 2011. No revisions were made to the Terms of Reference during the year.

<u>Membership</u>

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 HSBC 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 Bank.

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.

<u>Meetings and Quorum</u>

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.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

RISK MANAGEMENT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

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.

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 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 Bank's risk appetite and future risk strategy, including capital and liquidity management strategy; and (iii) management of risk within the Bank.

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 Bank'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 Bank'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.

3. To advise the Board on alignment of remuneration with risk appetite.

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.

5. To require regular risk management reports from management which:

   (i) enable the Committee to assess the risks involved in the Bank'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 Bank's vulnerability to hitherto unknown or unidentified risks.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

RISK MANAGEMENT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

6. To review the effectiveness of the Bank'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 the Bank and is free from constraint by management or other restrictions; and
   (vi) seek assurance from internal audit that internal control processes for risk management are adequate for the strategy determined by the Board.

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 Bank'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 HSBC 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.

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

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 relate 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.

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.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

RISK MANAGEMENT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

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.

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.

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

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

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.

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 Bank on behalf of the Committee.

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

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

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

Where there is a perceived overlap of responsibilities between the Bank'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 Bank'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 HSBC Group Audit Committee and/or HSBC Group Risk Committee as appropriate; or to any audit and/or risk committee of an intermediate holding Bank 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 Nominating Committee comprise:

§ Tan Sri Dato' Sulaiman bin Sujak (Chairman)
§ Mukhtar Malik Hussain
§ Datuk Ramli bin Ibrahim
§ Ching Yew Chye @ Chng Yew Chye
§ Dato' Henry Sackville Barlow

Frequency of the Meetings

A total of four (4) meetings were held during the financial year of 2013 and all members attended every meeting held.

Terms of Reference

The revised Terms of Reference as set out below were tabled at the nominating committee meeting held on 21 February 2013 and subsequently approved at the Board of Directors meeting held on 22 February 2013.

<u>Membership</u>

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.

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

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 appropriate to assist the Committee in the attainment of its objective.

<u>Meetings and Quorum</u>

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

<u>Objective</u>

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

NOMINATING COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee

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

   (a) 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;

   (a) 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;

   (c) To make recommendations to the Board concerning the renewal of the terms of office of non-executive directors and any matters relating to the continuation in office of any director at any time;

   (d) 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;

   (e) To ensure that there are established a 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;

   (f) Give full consideration to succession planning for directors in the course of its work, taking into account the challenges and opportunities facing the Bank, and what skills and expertise are therefore needed on the Board in the future;

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

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

   (i) To assess on an annual basis, to ensure that the directors and key Senior Management Officers are not disqualified under section 59 of the Financial Services Act 2013;

   (j) To determine annually whether a director is independent;

   (k) To assess and recommend to the Board any proposal for appointments and reappointments Key Senior Management for local and expatriate staff. Key Senior Management is defined as direct reports of the CEO;

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

NOMINATING COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

(l) 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;

(m) 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 respect of the Board of Directors, the Committee shall:

(a) before recommending an appointment, evaluate the balance of skills, knowledge and experience on the Board, and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates the Committee shall:

(i) use such method or methods to facilitate the search as it may deem appropriate;
(ii) consider candidates from a wide range of backgrounds;
(iii) consider candidates on merit and against objective criteria, taking care that appointees have enough time available to devote to the position; and
(iv) have due regard for the benefits of diversity on the board, including gender;

(b) keep under review the leadership needs of the Bank, both executive and non-executive, with a view to ensuring the continued ability of the Bank to compete effectively in the marketplace;

(c) keep up to date and fully informed about strategic issues and commercial changes affecting the Bank and the market in which it operates;

(d) review annually the time required from non-executive directors. Performance evaluation should be used to assess whether the non-executive directors are spending enough time to fulfill their duties; and

(e) ensure that on appointment to the Board, non-executive directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside board meetings.

3. In respect of the Key Senior Management, the Committee shall:

(a) ensure there is a process in place to facilitate the effective transfer of knowledge and expertise from expatriates employed in Senior Management and specialist positions to the staff of the institution as well as the industry;

(b) assess the appropriateness and suitability of proposed appointments;

(c) ensure that periodic assessments are deliberated on the performance and contribution of the expatriates to the overall development of the bank; and

(d) ensure there are established procedures to oversee appointment and succession planning for Key Senior Management Officers;

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

NOMINATING COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

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

5. 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:

   (a) discuss, evaluate and provide input on strategies and policies to suit the local environment; and
   (b) deliberate and make the necessary recommendations on such strategies and policies to assist the Board when approving major issues and strategies.

6. 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.

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

<u>Written or Circulating Resolution</u>

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.

<u>Amendment</u>

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 comprise:

§ Ching Yew Chye @ Chng Yew Chye
§ Tan Sri Dato' Sulaiman bin Sujak
§ Ramnath Krishnan, Chief Risk Officer ('CRO')
§ Alvin Choo, Head of Wholesale Credit and Market 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 Term of reference was revised and approved at the Board meeting on 16 February 2012. No revisions were made to the Terms of Reference during the year.

Quorum

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

Meetings and Chairman

The meetings of the Committee may be arranged in any form other than physical meetings. Alternatively, meetings held via teleconferencing or video-conferencing are deemed valid and are in the best interests of the Committee.

The Chairman of the meeting shall be elected by the Committee who has formed the quorum.

Written or Circulating Resolution

Any resolution in writing, signed or assented to by a minimum of three (3) members of the Committee, one of whom must be the CRO, shall be as valid and effectual as if it had been passed at a meeting of the Committee duly called and constituted and may consist of several documents in the like form each signed by one or more of the members of the Committee.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

CONNECTED PARTY TRANSACTIONS COMMITTEE (CONT'D)

Terms of Reference (Cont'd)

Powers Delegated by the Board

The Committee is delegated with the authority of the Board to approve all corporate/commercial credit transactions 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:

§ 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

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
§ Annual Operating Plan
§ Market Risk Limits
§ Risk Appetite Statement
§ Internal Capital Adequacy Assessment Process
§ Advanced Internal Ratings –Based Approach ("IRBA") Implementation Plan
§ Risk Management Reports
§ Operational Risk Report
§ 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
§ Capital Exercise
§ Capital Contingency Plan
§ Medium Term Outlook
§ People's Strategy 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. Controls within the internal control environment are provided by the implementation of established control frameworks and documented procedures / processes with first line oversight / monitoring effected through managerial /executive supervision and through the Business Risk Control Management teams. Internal Audit provides independent assurance on the effectiveness of the designs of the control frameworks / procedures / processes and on the effectiveness of their implementation.

Systems, processes and procedures are in place to identify, assess, 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 reported to and 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 functions in the HSBC Group Head Office are responsible for setting policies, procedures and standards in the areas of finance; legal, financial crime compliance and regulatory compliance; internal audit; human resources; credit; market risk; operational risk; IT systems and operations; property management; and for selected global product lines. The Bank operates within these policies, procedures and standards set by the HSBC Global functions.

HSBC Bank Malaysia Berhad's internal audit function assesses and monitors compliance with policies and standards and the operational effectiveness of internal control structures / frameworks across the Bank and its subsidiaries ("the Group") in conjunction with other HSBC Global Internal Audit units. The work of the audit function is focused on areas of greatest risk to the Group on a risk based approach. The Head of Internal Audit reports functionally to the Audit Committee and to HSBC Global Internal Audit's Global Head of Risk and Asia Pacific Audit and administratively to the Chief Executive Officer.

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

The 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 Internal Audit Unit. The Committee has reviewed the internal audit reports, audit recommendations made and management's response to these recommendations. Where appropriate, the Committee has directed action to be taken by the Group's management team to rectify any deficiencies identified by Internal Audit and to improve the system of internal controls based on the internal auditors' recommendations for improvements.

RATING BY EXTERNAL RATING AGENCIES

Details of the Bank's ratings are as follows:

Rating Agency	**Date**	**Rating Classification**	**Ratings Received**
RAM Ratings Services Berhad	June 2013	- Long term	AAA
		- Short term	P1
		- Subordinated bonds	AA1
		- Outlook	Stable
Moody's Investors Service	November 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 2013	- Long term	AAA
		- Short term	P1
		- Outlook	Stable
		- Multi-currency Sukuk Programme	AAA

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

The directors hereby submit submit 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 2013.

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	**1,512,178**	**1,324,521**
Income tax expense	**(392,977)**	**(349,294)**
Profit after income tax expense	**1,119,201**	**975,227**

Dividends

Since the end of the previous financial year, the Bank paid a final dividend for the year ended 2012 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 11 April 2013. The Bank also paid an interim dividend of RM1.46 per ordinary share less tax at 25% amounting to RM250 million in respect of financial year 2013 on 19 September 2013.

The directors now recommend a final dividend of RM1.31 per ordinary share 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 2013 has not been substantially affected by any item, transaction, or event of a material and unusual nature, nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Business Strategy during the Year 2013

The Malaysian economy rose at a more modest pace in 2013, lower than that registered in 2012. The prolonged weakness in the external environment has had a dampening effect on many emerging economies, including Malaysia. Nevertheless, on the local front, the increase in public consumption has mitigated the continued moderation in external demand as it was supported by higher Government spending on infrastructure projects, supplies and services, coupled with sustained civil service emoluments.

In spite of the harsher economic and regulatory landscape for the financial services industry, the Group still managed to maintain a respectable performance in 2013. The Group remained strong in liquidity, capital strength and cost-efficiency, while displaying quality in 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 2013.

In a move to embody values congruent with responsible sales conduct during the year, the Retail Banking and Wealth Management (RBWM) segment removed product based sales incentives, and focused on values based measures such as providing better customer experience and sales quality to the customers. There were significant additions in the range and diversity of wealth and asset management products and services offered in 2013, and these were complemented by various loyalty programs to increase customer engagement.

The Group's Global Banking & Markets (GBM) 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 seventh consecutive year.

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.

Performance Review 2013

The Group recorded profit before tax of RM1,512 million for the financial year ended 31 December 2013, a decrease of 3.9% or RM61 million compared against history. The decline in year to date profit was contributed by a decrease in operating income of RM65 million or 2.2% (Dec13: RM2,943 million, Dec12: RM3,008 million) coupled with marginally higher operating expenses of RM6 million or 0.5% (Dec13: RM1,225 million, Dec12: RM1,219 million) that was partially cushioned by an improvement in loan/financing impairment charges of RM11 million or 5.0% (Dec13: RM205 million, Dec12: RM216 million).

Profit before tax for the Bank declined by RM83 million or 5.9% to RM1,325 million (Dec12: RM1,408 million) arising from higher loans impairment charges and other credit risk provisions (rose RM63 million or 85.4%), lower net trading income (fell RM43 million or 7.3%) and net fee income (fell RM34 million or 7.0%) plus higher operating expenses (rose RM18 million or 1.6%), moderated by higher net interest income (rose RM53 million or 3.8%) and other operating income (rose RM23 million or 15.9%). Loans impairment charges and other credit risk provisions increased on account of impairment charges on corporates while net fee income declined on lower wealth management related fees in the current year. Net trading income decreased arising from lower gains on debt securities, coupled with smaller gains on derivatives, partly mitigated by higher foreign currency gains and trading net interest income. Operating expenses increased arising mainly from higher general administrative expenses relating to intercompany expenses. Meanwhile, net interest income improved on an expanded average loan base and lower cost of funds, while other operating income rose on higher gains from disposal of financial investments available-for-sale and intercompany income.

Income from Islamic banking fell RM57 million or 10.1%, mainly due to lower net trading income on lower gains from sell down of debt securities.

The Group's total balance sheet size at 31 December 2013 stood at RM79.8 billion, RM3.2 billion higher compared against 31 December 2012 (RM76.6 billion) mainly on higher deposits and placements from financial institutions which were deployed to customer advances, with the surplus placed mainly with Bank Negara Malaysia.

Outlook For 2014

The growth outlook for 2014 is projected to be between 5.0 and 5.5%, higher than the 4.5-5.0% predicted for 2013. Resilient domestic economic fundamentals, continued private investment and improving external demand are expected to help ensure the achievement of the growth estimate. Although domestic demand will likely continue to power the growth of the Malaysian economy, some moderation is to be expected in 2014.

New regulations imposed by Bank Negara Malaysia on property financing are expected to result in a slight slowdown in loan/financing growth for the banking sector in 2014. Nevertheless, this may be somewhat cushioned by higher trade related financing on account of improvements in major advanced, emerging market and developing economies.

The Group's priorities in 2014 remain unchanged, to grow the business, implement the highest global standards of conduct and compliance, and streamline processes and procedures for the benefit of the customers. This year, the Group will grow its affluent and midmarket retail market share by investing in its Premier and Advance propositions and offering enhanced wealth management solutions. The Group will also continue to increase its current share of quality assets via the relationship-based approach, by increasing value added offerings and needs based banking products and business solutions, while building on cross referrals and cross selling of various banking products to the Group's existing customers. At the same time, the Group will focus on delivering a better customer experience.

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 are expected to remain favourable for further expansion of bond-market activity, the Group, with its leadership in its Debt Capital Market, is well positioned to secure more key deals.

Awards won during the year

HSBC Bank Malaysia

1. Best Bank In Malaysia – The Asset Triple A Country Awards 2013 (11th consecutive year)
2. Best Debt House, Malaysia – The Asset Triple A Country Awards 2013 (7th consecutive year)
3. Best Foreign Bank, Malaysia - Alpha Southeast Asia Best Financial Institution Awards 2013(5th consecutive year)
4. Best Foreign Commercial Bank – Finance Asia Country Awards for Achievement 2013 (3rd consecutive year, 10th win to date)
5. Best Wealth Manager, Malaysia – The Asset Triple A Private Banking, Wealth Management and Investment Awards 2013
6. Best Sub-Custodian, Malaysia – The Asset Triple A Asset Servicing Awards 2013
7. Best Domestic Custodian, Malaysia – The Asset Triple A Asset Servicing Awards 2013
8. Best Cash Management Bank in Malaysia – Euromoney Cash Management Survey 2013
9. Best Fund Administrator - Retail Funds, Malaysia – The Asset Triple A Asset Servicing Awards 2013
10. Largest Payment Volume for Visa Signature - Visa Malaysia Bank Awards
11. Highest Payment Volume Growth for Platinum - Visa Malaysia Bank Awards

HSBC Amanah

1. Best Deal in Malaysia (Sime Darby Sukuk) - The Asset Triple A Country Awards 2013
2. Best Islamic Project Finance House – The Asset Triple A: Islamic Finance Awards 2013
3. Best Corporate Sukuk (Axiata RMB Sukuk) – The Asset Triple A Islamic Finance Awards 2013
4. Best Islamic Deal, Malaysia (Axiata RMB Sukuk) – The Asset Triple A Islamic Finance Awards 2013
5. Best Islamic Project Finance (Tanjung Bin Energy) – The Asset Triple A Islamic Finance Awards 2013
6. Islamic Deal of the Year (Republic of Indonesia USD1.0 billion Global Sukuk) – The Asset Triple A Islamic Finance Awards 2013
7. Best Sovereign Sukuk (Republic of Indonesia USD1.0 billion Global Sukuk) – The Asset Triple A Islamic Finance Awards 2013
8. Best Islamic Deal, Indonesia (Republic of Indonesia USD1.0 billion Global Sukuk) – The Asset Triple A Islamic Finance Awards 2013
9. Best Islamic Deal, Kazakhstan (Development Bank of Kazakhstan MYR240 million) – The Asset Triple A Islamic Finance Awards 2013
10. Most Innovative Deal (Axiata RMB Sukuk) – Euromoney Islamic Finance Awards 2013
11. Corporate Finance Deal of the Year (Sime Darby Global Sukuk Programme) – Islamic Finance News Deals of the Year 2013
12. Asia-Pacific – Islamic Finance (Development Bank of Kazakhstan MYR240 million Sukuk Al-Murabahah) – The Banker Deals of the Year 2013
13. Most Outstanding Islamic Finance Product – (Axiata USD$1.5 billion multi-currency Sukuk Issuance) – KLIFF Islamic Finance Awards 2013
14. Lead Manager Award 2012 Islamic By Number of Issues – Joint 3rd– RAM Rating
15. First RAM-rated Foreign Entity from Republic of Kazakhstan - (Development Bank of Kazakhstan MYR240 million) – RAM Rating
16. Best Foreign Currency Bond Deal of the Year 2013 (Sime Darby's US$800 million Multi Currency Sukuk) – Alpha Southeast Asia

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
§ Datuk Shireen Ann Zaharah Binti Muhiudeen *(appointed on 5 December 2013)*
§ Lee Choo Hock *(appointed on 5 December 2013)*

In accordance with Article 77 and 78 of the Articles of Association, all directors shall retire from the Board at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Section 129(2) of the Companies Act, 1965, Tan Sri Dato' Sulaiman bin Sujak 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 1.1.2013 (or at date of appointment)	Bought	(Sold)	Balance at 31.12.2013
HSBC Holdings plc				
Ordinary shares of USD0.50				
Peter Wong Tung Shun	730,876 ([1])	147,287 ([1])	-	878,163 ([1])
Mukhtar Malik Hussain	741,319	178,184	-	919,503
Baldev Singh s/o Gurdial Singh	18,856	2,551	-	21,407
Tan Sri Dato' Sulaiman bin Sujak	84,629	3,817	-	88,446
Ching Yew Chye	33,742	24,563	-	58,305

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

Directors and their Interests in Shares (Cont'd)

Name	Number of Shares				
	Shares held at 1.1.2013 (or at date of appointment)	Shares issued during year ^	(Shares forfeited during the year)	(Shares vested during the year)	Shares held at 31.12.2013
HSBC Holdings plc					
HSBC Share Plan					
Peter Wong Tung Shun	547,165	367,856	-	(149,372)	765,649
Mukhtar Malik Hussain	286,991	108,597	-	(150,632)	244,956
Baldev Singh s/o Gurdial Singh	6,285	2,014	-	(2,270)	6,029

^ *Includes scrip dividends*

Name	Number of Options				
	Balance at 1.1.2013 (or at date of appointment)	Granted	(Exercised)	(Lapsed)	Balance at 31.12.2013
Options over HSBC Holdings plc Shares					
Baldev Singh s/o Gurdial Singh	5,738	-	-	(5,738)	-

None of the other directors holding office at 31 December 2013 had 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
14 February 2014

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

DIRECTORS' STATEMENT

In the opinion of the directors:

We, Mukhtar Malik Hussain and Baldev Singh s/o Gurdial Singh being two of the directors of HSBC Bank Malaysia Berhad, do hereby state on behalf of the directors that, in our opinion, the financial statements set out on pages 36 to 144 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 2013 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 14 February 2014

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

....Director
MUKHTAR MALIK HUSSAIN

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

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

STATUTORY DECLARATION

I, Baldev Singh s/o Gurdial Singh, being the director primarily responsible for the financial management of HSBC Bank Malaysia Berhad, do solemnly and sincerely declare that, to the best of my knowledge and belief, the financial statements set out on pages 36 to 144 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 14 February 2014.

....

BALDEV SINGH s/o GURDIAL SINGH

BEFORE ME:

....
Signature of Commissioner for Oaths

PESURUHJAYA SUMPAH
No. W 633
MURALITHERAN
ART PILLAI
MALAYSIA

Tkt. 20, AmBank Building
No. 55, Jalan Raja Chulan
50200 Kuala Lumpur

KPMG (Firm No. AF 0758)
Chartered Accountants
Level 10, KPMG Tower
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47800 Petaling Jaya
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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 2013 of the Group and of the Bank, and the statements of profit or loss and other 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 information, as set out on pages 36 to 144.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation of these financial statements so as to give a true and fair view 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 about 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 judgement, 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 Bank as of 31 December 2013 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.

KPMG

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	Siew Chin Kiang @ Seow Chin Kiang
Firm Number: AF 0758	Approval Number: 2012/11/14 (J)
Chartered Accountants	Chartered Accountant

Date: 14 February 2014

Petaling Jaya

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

STATEMENTS OF FINANCIAL POSITION
AT 31 DECEMBER 2013

		Group		*Bank*	
	Note	**31 Dec 2013 RM'000**	31 Dec 2012 RM'000 Restated	**31 Dec 2013 RM'000**	31 Dec 2012 RM'000 Restated
Assets					
Cash and short-term funds	*6*	**15,454,507**	12,714,138	**12,558,786**	11,064,818
Securities purchased under resale agreements		**2,877,270**	3,198,016	**2,877,270**	3,198,016
Deposits and placements with banks and other financial institutions	*7*	**4,011,340**	2,992,993	**5,203,425**	4,645,468
Financial assets held-for-trading	*8*	**2,333,390**	4,597,107	**2,243,731**	4,414,598
Financial investments available-for-sale	*9*	**6,499,601**	7,546,325	**5,158,595**	6,281,042
Loans, advances and financing	*10*	**44,659,904**	42,265,895	**35,484,730**	33,782,016
Derivative financial assets	*39*	**1,320,144**	1,079,988	**1,413,325**	1,114,866
Other assets	*12*	**761,686**	301,205	**738,904**	279,428
Statutory deposits with Bank Negara Malaysia	*13*	**1,384,160**	1,330,159	**993,598**	986,598
Investments in subsidiary companies	*14*	**-**	-	**660,021**	660,021
Property and equipment	*16*	**355,047**	369,194	**332,254**	341,355
Intangible assets	*17*	**55,352**	53,525	**55,343**	53,496
Tax recoverable		**14,472**	-	**-**	-
Deferred tax assets	*18*	**86,976**	176,014	**79,883**	134,541
Total assets		**79,813,849**	76,624,559	**67,799,865**	66,956,263
Liabilities					
Deposits from customers	*19*	**59,914,419**	59,938,046	**48,883,876**	51,298,258
Deposits and placements from banks and other financial institutions	*20*	**8,297,828**	6,383,891	**8,270,879**	6,274,116
Bills and acceptances payable		**906,595**	504,349	**895,623**	488,923
Derivative financial liabilities	*39*	**1,098,453**	781,671	**1,160,067**	792,496
Other liabilities	*21*	**1,636,295**	1,597,633	**1,646,543**	1,566,588
Provision for taxation		**16,055**	14,168	**16,055**	10,861
Multi-Currency Sukuk Programme	*22*	**500,000**	500,000	**-**	-
Subordinated bonds	*23*	**1,005,071**	1,012,591	**1,005,071**	1,012,591
Total liabilities		**73,374,716**	70,732,349	**61,878,114**	61,443,833
Equity					
Share capital	*24*	**114,500**	114,500	**114,500**	114,500
Reserves	*25*	**6,024,633**	5,477,710	**5,507,251**	5,097,930
Proposed dividend		**300,000**	300,000	**300,000**	300,000
Total equity attributable to owner of the Bank		**6,439,133**	5,892,210	**5,921,751**	5,512,430
Total liabilities and equity		**79,813,849**	76,624,559	**67,799,865**	66,956,263
Commitments and Contingencies	*38*	**140,001,374**	126,997,325	**138,108,215**	124,988,502

The financial statements were approved and authorised for issue by the Board of Directors on 14 February 2014.

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 2013

		Group		Bank	
		31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	Note	**RM'000**	RM'000	**RM'000**	RM'000
			Restated		Restated
Revenue		**4,083,703**	4,147,782	**3,524,668**	3,559,241
Interest income	*26*	**2,285,724**	2,250,536	**2,322,282**	2,309,876
Interest expense	*26*	**(882,635)**	(923,212)	**(882,635)**	(923,212)
Net interest income	*26*	**1,403,089**	1,327,324	**1,439,647**	1,386,664
Fee and commission income	*27*	**491,867**	518,613	**491,897**	518,643
Fee and commission expense	*27*	**(38,443)**	(30,901)	**(38,443)**	(30,901)
Net fee and commission income	*27*	**453,424**	487,712	**453,454**	487,742
Net trading income	*28*	**536,641**	588,574	**544,379**	587,361
Income from Islamic banking operations	*29*	**509,869**	566,990	**-**	-
Other operating income	*30*	**39,765**	37,444	**166,110**	143,361
Operating income before impairment losses		**2,942,788**	3,008,044	**2,603,590**	2,605,128
Loans / financing impairment charges and other credit risk provisions	*31*	**(205,063)**	(215,767)	**(136,750)**	(73,757)
Impairment losses on intangible assets		**(643)**	-	**(643)**	-
Net operating income		**2,737,082**	2,792,277	**2,466,197**	2,531,371
Other operating expenses	*32*	**(1,224,904)**	(1,219,295)	**(1,141,676)**	(1,123,559)
Profit before income tax expense		**1,512,178**	1,572,982	**1,324,521**	1,407,812
Income tax expense	*33*	**(392,977)**	(371,635)	**(349,294)**	(339,704)
Profit for the year		**1,119,201**	1,201,347	**975,227**	1,068,108
Other comprehensive income / (expense)					
Items that will subsequently be reclassified to profit or loss when specific conditions are met					
Revaluation reserve:					
Surplus on revaluation of properties		**6,233**	23,442	**6,233**	23,442
Deferred tax adjustment on revaluation reserve		**(5,707)**	(3,153)	**(5,707)**	(3,153)
Cash flow hedge:					
Effective portion of changes in fair value		**(2)**	(308)	**(2)**	(308)
Net amount transferred to profit or loss		**(366)**	(400)	**(366)**	(400)
Available-for-sale reserve:					
Change in fair value		**(31,662)**	7,588	**(22,895)**	7,073
Amount transferred to profit or loss		**363**	-	**255**	-
Income tax credit / (expense) relating to components of other comprehensive income		**7,918**	(1,722)	**5,753**	(1,593)
Other comprehensive (expense) / income for the year, net of income tax		**(23,223)**	25,447	**(16,729)**	25,061
Total comprehensive income for the year		**1,095,978**	1,226,794	**958,498**	1,093,169
Profit attributable to the owner of the Bank		**1,119,201**	1,201,347	**975,227**	1,068,108
Total comprehensive income attributable to the owner of the Bank		**1,095,978**	1,226,794	**958,498**	1,093,169
Basic earnings per RM0.50 ordinary share	*34*	**488.7 sen**	524.6 sen	**425.9 sen**	466.4 sen
Dividends per RM0.50 ordinary share (net)					
- interim dividend paid		**109.2 sen**	87.3 sen	**109.2 sen**	87.3 sen
- proposed final		**131.0 sen**	131.0 sen	**131.0 sen**	131.0 sen

The financial statements were approved and authorised for issue by the Board of Directors on 14 February 2014.

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 2013

	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**
2013													
Balance at 1 January	**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**
Total comprehensive income for the year													
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,119,201**	**1,119,201**	**-**	**1,119,201**
Other comprehensive income, net of income tax													
Deferred tax adjustment on revaluation reserve	**-**	**-**	**-**	**(5,707)**	**-**	**-**	**-**	**-**		**-**	**(5,707)**	**-**	**(5,707)**
Revaluation reserve:													
Transfer to retained profit upon realisation of depreciation	**-**	**-**	**-**	**(1,799)**	**-**	**-**	**-**	**-**	**-**	**1,799**	**-**	**-**	**-**
Surplus on revaluation of properties	**-**	**-**	**-**	**6,233**	**-**	**-**	**-**	**-**		**-**	**6,233**	**-**	**6,233**
Cash flow hedge:													
Effective portion of changes in fair value	**-**	**-**	**-**	**-**	**-**	**-**	**(2)**	**-**	**-**		**(2)**	**-**	**(2)**
Net amount transferred to profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**(274)**	**-**	**-**	**-**	**(274)**	**-**	**(274)**
Available-for-sale reserve:													
Net change in fair value	**-**	**-**	**-**	**-**	**-**	**(23,745)**	**-**	**-**	**-**	**-**	**(23,745)**	**-**	**(23,745)**
Net amount transferred to profit or loss	**-**	**-**	**-**	**-**	**-**	**272**	**-**	**-**	**-**	**-**	**272**	**-**	**272**
Total other comprehensive (expense)/ income	**-**	**-**	**-**	**(1,273)**	**-**	**(23,473)**	**(276)**	**-**	**-**	**1,799**	**(23,223)**	**-**	**(23,223)**
Total comprehensive income for the year	**-**	**-**	**-**	**(1,273)**	**-**	**(23,473)**	**(276)**	**-**	**-**	**1,121,000**	**1,095,978**	**-**	**1,095,978**
Transactions with the owner (the ultimate holding company), recorded directly in equity													
Share based payment transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,547**	**-**	**(3,602)**	**945**	**-**	**945**
Dividends paid to owner - 2012 final	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	**-**	**-**	**(300,000)**	**(300,000)**
Dividends paid to owner - 2013 interim	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	**(250,000)**	**(250,000)**	**-**	**(250,000)**
Proposed dividend - 2013 final	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	**(300,000)**	**(300,000)**	**300,000**	**-**
Balance at 31 December	**114,500**	**741,375**	**164,500**	**166,049**	**190,000**	**(6,871)**	**48**	**95,470**	**-**	**4,674,062**	**6,024,633**	**300,000**	**6,439,133**
2012													
Balance at 1 January	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 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	-	-	-	-	-	5,688	-	-	-	-	5,688	-	5,688
Total other comprehensive income/ (expense)	-	-	-	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	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 14 February 2014.

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 2013 (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**
2013												
Balance at 1 January	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
Total comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	-	975,227	975,227	-	975,227
Other comprehensive income, net of income tax												
Deferred tax adjustment on revaluation reserve	-	-	-	(5,707)	-	-	-	-	-	(5,707)	-	(5,707)
Revaluation reserve:												
Transfer to retained profit upon realisation of depreciation	-	-	-	(1,799)	-	-	-	-	1,799	-	-	-
Surplus on revaluation of properties	-	-	-	6,233	-	-	-	-	-	6,233	-	6,233
Cash flow hedge:												
Effective portion of changes in fair value	-	-	-	-	-	-	(2)	-	-	(2)	-	(2)
Net amount transferred to profit or loss	-	-	-	-	-	-	(274)	-	-	(274)	-	(274)
Available-for-sale reserve:												
Net change in fair value	-	-	-	-	-	(17,170)	-	-	-	(17,170)	-	(17,170)
Net amount transferred to profit or loss	-	-	-	-	-	191	-	-	-	191	-	191
Total other comprehensive (expense)/ income	-	-	-	(1,273)	-	(16,979)	(276)	-	1,799	(16,729)	-	(16,729)
Total comprehensive income for the year	-	-	-	(1,273)	-	(16,979)	(276)	-	977,026	958,498	-	958,498
Transactions with the owner (the ultimate holding company), recorded directly in equity												
Share based payment transactions	-	-	-	-	-	-	-	4,418	(3,595)	823	-	823
Dividends paid to owner - 2012 final	-	-	-	-	-	-	-	-	-	-	(300,000)	(300,000)
Dividends paid to owner - 2013 interim	-	-	-	-	-	-	-	-	(250,000)	(250,000)	-	(250,000)
Proposed dividend - 2013 final	-	-	-	-	-	-	-	-	(300,000)	(300,000)	300,000	-
Balance at 31 December	114,500	741,375	114,500	166,049	190,000	(911)	48	94,178	4,202,012	5,507,251	300,000	5,921,751
2012												
Balance at 1 January	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
Net amount transferred to profit or loss on disposal	-	-	-	-	-	-	-	-	-	-	-	-
Total other comprehensive income/ (expense)	-	-	-	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	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 14 February 2014.

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 2013

	Group	
	31 Dec 2013	31 Dec 2012
	RM'000	RM'000
		Restated
Cash Flows from Operating Activities		
Profit before income tax expense	**1,512,178**	1,572,982
Adjustments for :		
Property and equipment written off	**550**	717
Depreciation of property and equipment	**40,259**	40,973
Amortisation of intangible assets	**22,263**	22,079
Net (gains)/losses on disposal of property and equipment	**(456)**	11
Net upwards revaluation on property	**(20)**	(39)
Impairment of intangibles	**643**	-
Share-based payment transactions	**945**	(3,380)
Dividend income	**(1,175)**	(2,009)
Operating profit before changes in operating assets and liabilities	**1,575,187**	1,631,334
Decrease/ (Increase) in operating assets		
Securities purchased under resale agreements	**320,746**	484,953
Deposits and placements with banks and other financial institutions	**(1,018,347)**	(2,341,215)
Financial assets held-for-trading	**2,263,717**	1,620,130
Loans, advances and financing	**(2,394,009)**	(2,627,538)
Derivative financial assets	**(240,156)**	188,980
Other assets	**(468,369)**	122,674
Statutory deposits with Bank Negara Malaysia	**(54,001)**	(234,099)
Increase/ (Decrease) in operating liabilities		
Deposits from customers	**(23,627)**	1,200,949
Deposits and placements from banks and other financial institutions	**1,913,937**	(3,525,071)
Bills and acceptances payable	**402,246**	(16,988)
Derivative financial liabilities	**316,782**	(220,575)
Other liabilities	**38,661**	(1,941,351)
Net cash generated from/(used in) operating activities	**2,632,767**	(5,657,817)
Income tax paid	**(314,313)**	(577,188)
Net cash generated from/(used in) operating activities	**2,318,454**	(6,235,005)
Cash Flows from Investing Activities		
Purchase of property and equipment	**(20,534)**	(33,565)
Purchase of intangible assets	**(24,733)**	(22,341)
Proceeds from disposal of property and equipment	**581**	183
Financial investments available-for-sale	**1,015,426**	(2,664,920)
Dividends received	**1,175**	2,009
Net cash generated from/(used in) investing activities	**971,915**	(2,718,634)
Cash Flows from Financing Activities		
Issuance of Multi-Currency Sukuk Programme	**-**	500,000
Dividends paid	**(550,000)**	(500,000)
Net cash used in financing activities	**(550,000)**	-
Net increase/(decrease) in Cash and Cash Equivalents	**2,740,369**	(8,953,639)
Cash and Cash Equivalents at beginning of the year	**12,714,138**	21,667,777
Cash and Cash Equivalents at end of the year	**15,454,507**	12,714,138
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**15,454,507**	12,714,138

The financial statements were approved and authorised for issue by the Board of Directors on 14 February 2014.

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 2013 (CONT'D)

	Bank	
	31 Dec 2013	31 Dec 2012
	RM'000	RM'000
		Restated
Cash Flows from Operating Activities		
Profit before income tax expense	**1,324,521**	1,407,812
Adjustments for :		
Property and equipment written off	**537**	716
Depreciation of property and equipment	**30,067**	33,063
Amortisation of intangible assets	**22,242**	21,629
Net (gains)/losses on disposal of property and equipment	**(456)**	11
Net upwards revaluation on property	**(20)**	(39)
Impairment of intangibles	**643**	-
Net transfer of property and equipment (from)/to subsidiary	**(80)**	144
Share-based payment transactions	**823**	(3,847)
Dividend income	**(1,175)**	(2,009)
Operating profit before changes in operating assets and liabilities	**1,377,102**	1,457,480
Decrease/ (Increase) in operating assets		
Securities purchased under resale agreements	**320,746**	484,953
Deposits and placements with banks and other financial institutions	**(557,957)**	(958,410)
Financial assets held-for-trading	**2,170,867**	1,585,923
Loans, advances and financing	**(1,702,714)**	(1,929,475)
Derivative financial assets	**(298,459)**	148,909
Other assets	**(467,364)**	123,568
Statutory deposits with Bank Negara Malaysia	**(7,000)**	(119,100)
Increase/ (Decrease) in operating liabilities		
Deposits from customers	**(2,414,382)**	(1,776,364)
Deposits and placements from banks and other financial institutions	**1,996,763**	(3,155,438)
Bills and acceptances payable	**406,700**	(24,814)
Derivative financial liabilities	**367,571**	(218,215)
Other liabilities	**79,954**	(2,054,579)
Net cash generated from/(used in) operating activities	**1,271,827**	(6,435,562)
Income tax paid	**(289,396)**	(497,188)
Net cash generated from/(used in) operating activities	**982,431**	(6,932,750)
Cash Flows from Investing Activities		
Purchase of property and equipment	**(15,295)**	(16,885)
Purchase of intangible assets	**(24,732)**	(22,323)
Proceeds from disposal of property and equipment	**581**	183
Financial investments available-for-sale	**1,099,808**	(1,822,238)
Dividend received	**1,175**	2,009
Net cash generated from/(used in) investing activities	**1,061,537**	(1,859,254)
Cash Flows from Financing Activity		
Dividends paid	**(550,000)**	(500,000)
Net cash used in financing activity	**(550,000)**	(500,000)
Net increase/(decrease) in Cash and Cash Equivalents	**1,493,968**	(9,292,004)
Cash and Cash Equivalents at beginning of the year	**11,064,818**	20,356,822
Cash and Cash Equivalents at end of the year	**12,558,786**	11,064,818
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**12,558,786**	11,064,818

The financial statements were approved and authorised for issue by the Board of Directors on 14 February 2014.

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

NOTES TO THE FINANCIAL STATEMENTS

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. The Bank and its subsidiaries are collectively known as the Group.

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

2 Basis of Preparation

(a) Statement of compliance

The financial statements of the Group and the Bank have been prepared in accordance with the Malaysian Financial Reporting Standards ('MFRS'), International Financial Reporting Standards 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.

All significant accounting policies and methods of computation applied in the financial statements are consistent with those in the audited financial statements for the year ended 31 December 2012, except for the adoption of the following MFRSs, amendments to MFRSs, and Issues Committee ('IC') Interpretations.

- 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, Separate Financial Statements (IAS 27 as revised by IASB in May 2011)
- MFRS 128, Investments in Associates and Joint Ventures (IAS 28 as amended by IASB in May 2011
- Amendments to MFRS 1, (Government Loans)
- Amendments to MFRS 1, (Annual Improvements 2009-2011 Cycle)
- 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)
- Amendments to MFRS 116, Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 132, Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 134, Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)
- IC Interpretation 20, Stripping Costs in the Production Phase of a Surface Mine

IC Interpretation 20 did not 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 adoption of the remaining standards, amendments and interpretations did not have any material impact on the financial results of the Group and the Bank.

2 Basis of Preparation (Cont'd)

(a) Statement of compliance (Cont'd)

The following are accounting standards, amendments and interpretations that have been issued by the MASB but have not been adopted by the Group and Bank as they are either not applicable or not yet effective:-

Interpretations and amendments effective for annual periods beginning on or after 1 January 2014

- Amendments to MFRS 10, MFRS 12 and MFRS 127, Investment Entities
- Amendments to MFRS 12, Disclosure of Interests in Other Entities: Investment Entities
- Amendments to MFRS 127, Separate Financial Statements (2011): Investment Entities
- Amendments to MFRS 132, Financial Instruments: Presentation (Offsetting Financial Assets and Financial Liabilities)
- Amendments to MFRS 136, Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets (Amendments to MFRS136)
- Amendments to MFRS 139, Financial Instruments: Recognition and Measurement, Novation of Derivatives and Continuation of Hedge Accounting (Amendments to MFRS139)
- IC Interpretation 21, Levies

The Group and the Bank plan to apply the abovementioned amendments and interpretations from the annual period beginning 1 January 2014.

Amendments effective for annual periods beginning on or after 1 July 2014

– Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)
– Amendments to MFRS 2, Share-based Payment (Annual Improvements 2010-2012 Cycle)
– Amendments to MFRS 3, Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)
– Amendments to MFRS 8, Operating Segments (Annual Improvements 2010-2012 Cycle)
– Amendments to MFRS 13, Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)
– Amendments to MFRS 116, Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)
– Amendments to MFRS 119, Employee Benefits – Defined Benefit Plans: Employee Contributions
– Amendments to MFRS 138, Intangible Assets (Annual Improvements 2010-2012 Cycle)
– Amendments to MFRS 124, Related Party Disclosures (Annual Improvements 2010-2012 Cycle)
– Amendments to MFRS 140, Investment Properties (Annual Improvements 2011-2013 Cycle)

The Group and the Bank plan to apply the abovementioned amendments from the annual period beginning 1 July 2014.

MFRSs and Amendments effective for a date yet to be confirmed

- MFRS 9, Financial Instruments (IFRS 9 issued by IASB in November 2009)
- MFRS 9, Financial Instruments (IFRS 9 issued by IASB in October 2010)
- MFRS 9, Financial Instruments (2013)
- Amendments to MFRS 7 – Financial Instruments: Disclosures -Mandatory Effective Date of MFRS 9 and Transition Disclosures.

The initial application of a standard that will be applied prospectively or which requires extended disclosures is not expected to have any financial impacts to the current and prior period's financial statement upon their first adoption.

The initial application of the above accounting standards, amendments and interpretation are not expected to have any material financial impact to the current period and prior period financial statements of the Group and the Bank upon their first adoption, except as mentioned 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 and financial liabilities, and on hedge accounting. The Group and the Bank is currently assessing the financial impact that may arise from the adoption of MFRS 9.

2 Basis of Preparation (Cont'd)

(b) Basis of measurement

The financial statements of the Group and the Bank have been prepared under the historical cost convention, 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 results of the Group and the Bank are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the financial statements. The significant accounting policies are described in Note 3 on the financial statements. 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 judgments 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.

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 structured 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.

The Group adopted MFRS 10, Consolidated Financial Statements in the current financial year. This resulted in changes to the following policies:

- Control exists when the Group is exposed, or has the rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In the previous financial years, control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

3 Significant Accounting Policies (Cont'd)

(a) Basis of Consolidation (Cont'd)

i) Subsidiaries (Cont'd)

- Potential voting rights are considered when assessing control only when such rights are substantive. In the previous financial years, potential voting rights are considered when assessing control when such rights are presently exercisable.
- The Group considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return. In the previous financial years, the Group did not consider de facto power in its assessment of control.

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) 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.

For new acquisitions, 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.

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) Acquisitions of non-controlling interests

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against the Group reserves.

iv) Loss of control

Upon the loss of control of a subsidiary, the Group derecognizes the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that the control is lost. Subsequently, it is accounted for as equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(a) Basis of Consolidation (Cont'd)

v) 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 associate.

When the Group ceases to have significant influence over an associate, any retained interest in the former associate at the date when significant influence is lost is measured at fair value and this amount is regarded as the initial carrying amount of a financial asset. The difference between the fair value of any retained interest plus proceeds from the interest disposed of and the carrying amount of the investment at the date when equity method is discontinued is recognised in profit or loss.

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 recognised in profit or loss. Any gain or loss previously recognized in other comprehensive income are also reclassified proportionately to the profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of related assets/liabilities.

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.

vi) Joint arrangements

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decision about the activities that significantly affect the arrangement's returns.

The Group adopted MFRS 11, Joint Arrangements in the current financial year. As a result, joint arrangements are classified and accounted for as follows:

- A joint arrangement is classified as "joint operation" when the Group or the Bank has the rights to the assets and obligations for the liabilities relating to an arrangement. The Group and the Bank account for each of its share of the assets, liabilities and transactions, including the share of those held or incurred jointly with the other investors, in relation to the joint operation.
- A joint arrangement is classified as a "joint venture" when the Group has rights only to the net assets of the arrangements. The Group accounts for its interest in the joint venture using the equity method.

In the previous financial years, joint arrangements were classified and accounted for as follows:
- For jointly controlled entity, the Group accounted for its interest using the equity method.
- For jointly controlled asset or jointly controlled operation, the Group and the Company accounted for each of its share of the assets, liabilities and transactions, including its share of those held or incurred jointly with the other investors.

The change in accounting policy has been made retrospectively and in accordance with the transitional provision of MFRS 11. The adoption of MFRS 11 has no significant impact to the financial statements of the Group.

(a) Basis of Consolidation (Cont'd)

vii) Non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Bank, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Bank. Non-controlling interests in the results of the Group is presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of the profit or loss and other comprehensive income for the year between the non-controlling interests and owners of the Bank.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interests to have a deficit balance.

viii) 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 equity-accounted associates and joint ventures are eliminated against the investment to the extent of the Group's interest in the investees. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign Currencies

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.

3 Significant Accounting Policies (Cont'd)

(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 effective interest rate is the rate that exactly discounts estimated future cash flow payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

The calculation of the effective interest/profit rate includes all amounts paid or received by 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(f) Income tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the profit or loss except to the extent that it relates to a business combination or 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 or receivable on the taxable income or loss for the year, calculated using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous financial 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 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 profit or loss when the deferred fair value gain or loss is recognised in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(g) Financial instruments

i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when the Group or the Bank becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised as fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

ii) Financial instrument categories and subsequent measurement

The Group and the Bank categorise financial assets as follows:
– loans, advances and financing (See Note 3l)
– financial investments - held to maturity (See Note 3k i),
  - available-for-sale (See Note 3k ii),
– 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, 3r, 3t)

iii) Derecognition of financial assets and liabilities

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

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled, or expires.

iv) Offsetting financial assets/liabilities and income/expenses

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(g) Financial instruments(Cont'd)

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 from the transaction price as indicated by the valuation model is not recognised immediately in the profit or loss. Instead, it is recognised over the life of the transaction on an appropriate basis, when the inputs become observable, 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 are measured in accordance with the Group and the Bank's valuation methodologies, which are described in Notes 5(ii).

(h) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash and cash equivalents include cash at hand and bank balances, short term deposits and placements with banks maturing within one month.

(i) Resale and Repurchase Agreements

When securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received.

Securities purchased under commitments to sell ('reverse repos') are not recognised on the balance sheet and the consideration paid is recorded as an asset on the statement of financial position.

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

(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 profit or loss. Subsequently, the fair values are remeasured, and gains and losses from changes therein are recognised in the profit or loss in 'Net trading income'.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(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 financial assets are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income in 'Available-for-sale investments – fair value gains/(losses)' until the financial assets are either sold or become impaired. When available-for-sale financial assets are sold, cumulative gains or losses previously recognised in other comprehensive income are recognised in the profit or loss as 'Gains/losses from financial investments'.

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

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

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

Impairment losses for available-for-sale debt securities are recognised within 'Loan impairment charges and other credit risk provisions' in the profit or loss and impairment losses for available-for-sale equity securities are recognised within 'Gains/losses from financial investments' in the profit or loss.

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

– Available-for-sale debt securities
When assessing available-for-sale debt securities for objective evidence of impairment at the end of the reporting date, the Group and the Bank considers 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(k) Financial investments (Cont'd)

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

– Available-for-sale equity securities (Cont'd).
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:

– Available-for-sale debt security.
  A subsequent decline in the fair value of the instrument is recognised in the profit or loss 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 profit or loss, the impairment loss is reversed through the profit or loss. If there is no longer objective evidence that the debt security is impaired, the impairment loss is also reversed through the profit or loss;
– 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 profit or loss. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the profit or loss, 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 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 reduction from impairment or uncollectibility.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(m) Impairment of loans, advances and financing

Losses for impaired loans, advances and financing are recognised promptly when there is objective evidence that impairment of a loan/financing or portfolio of loans/financing has occurred or when principal or interest/profit or both are past due for more than ninety (90) days, whichever is sooner. Impairment allowances are calculated on individual loans/financing and on groups of loans/financing assessed collectively. Impairment losses are recorded as charges to the profit or loss. The carrying amount of impaired loans/financing on the balance sheet is reduced through the use of impairment allowance accounts. Losses which may arise from future events are not recognised.

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.

Individually assessed loans, advances and financing

The factors considered in determining whether a loan/financing is individually significant for the purposes of assessing impairment include:
– the size of the loan/financing;
– the number of loans/financing in the portfolio; and
– the importance of the individual loan/financing relationship, and how this is managed.
Loans/financing that meet the above criteria will be individually assessed for impairment, except when volumes of defaults and losses are sufficient to justify treatment under a collective assessment methodology. Loans/financing considered as individually significant are typically to corporate and commercial customers and are for larger amounts, which are managed on an individual relationship basis. Retail lending portfolios are generally assessed for impairment on a collective basis as the portfolios generally consist of large pools of homogeneous loans/financing.

For all loans/financing that are considered individually significant, the Group and Bank assess on a case-by-case basis at each balance sheet date whether there is any objective evidence that a loan/financing is impaired. The criteria used by the Group and Bank to determine that there is such objective evidence include:
– known cash flow difficulties experienced by the borrower;
– contractual payments of either principal or interest being past due for more than 90 days;
– the probability that the borrower will enter bankruptcy or other financial realisation;
– a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees, where the concession is not insignificant; and
– there has been deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

For those loans/financing where objective evidence of impairment exists, impairment losses are determined considering the following factors:
– the Group/Bank's aggregate exposure to the customer;
– the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
– the amount and timing of expected receipts and recoveries;
– the likely dividend available on liquidation or bankruptcy;
– the extent of other creditors' commitments ranking ahead of, or pari passu with, the Group and the Bank and the likelihood of other creditors continuing to support the company;
– the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
– the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
– the likely deduction of any costs involved in recovery of amounts outstanding;
– the ability of the borrower to obtain, and make payments in, the currency of the loan/financing if not denominated in local currency; and
– when available, the secondary market price of the debt.

The realisable value of security is determined based on the current market value when the impairment assessment is performed. The value is not adjusted for expected future changes in market prices; however, adjustments are made to reflect local conditions such as forced sale discounts.

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

Impairment losses are calculated by discounting the expected future cash flows of a loan/financing, which includes expected future receipts of contractual interest/profit, at the loan/financing's original effective interest/profit rate and comparing the resultant present value with the loan/financing's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

Collectively assessed loans, advances and financing

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

Incurred but not yet identified impairment
Individually assessed loans/financing for which no evidence of impairment has been specifically identified on an individual basis is grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective impairment. These credit risk characteristics may include country of origination, type of business involved, type of products offered, security obtained or other relevant factors. This reflects impairment losses that the Group and the Bank has incurred as a result of events occurring before the balance sheet date, which the Group and the Bank is not able to identify on an individual loan/financing basis, and that can be reliably estimated. These losses will only be individually identified in the future. 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 grade or product);
– the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan/financing; and
– 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.

The period between losses occurring and its identification is estimated by local management for each identified portfolio. The factors that may influence this estimation include economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. As it is assessed empirically on a periodic basis the estimated period between a loss occurring and its identification may vary over time as these factors change.

Homogeneous groups of loans, advances and financing
Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans, advances and 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 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:

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

Collectively assessed loans, advances and financing (Cont'd)

<u>*Homogeneous groups of loans, advances and financing(Cont'd)*</u>

− When appropriate empirical information is available, the Group and the Bank utilises roll rate methodology. 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 is 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. The estimated loss is the difference between the present value of expected future cash flows, discounted at the original effective interest rate of the portfolio, and the carrying amount of the portfolio.

− When the portfolio size is small or when information is insufficient or not reliable enough to adopt a roll rate methodology, the Group and the Bank adopts a basic formulaic approach based on historical loss rate experience. The period between losses occurring and its identification is explicitly estimated by local management, and is typically between six and twelve months.

The inherent loss within each portfolio is assessed on the basis of statistical models using historical data observations, which are updated periodically to reflect recent portfolio and economic trends. When the most recent trends arising from changes in economic, regulatory or behavioural conditions are not fully reflected in the statistical models, they are taken into account by adjusting the impairment allowances derived from the statistical models to reflect these changes as at the balance sheet date.

These additional portfolio risk factors may include recent loan/financing portfolio growth and product mix, unemployment rates, bankruptcy trends, geographic concentrations, loan/financing product features (such as the ability of borrowers to repay adjustable-rate loans/financing where reset interest/profit rates give rise to increases in interest/profit charges), economic conditions such as national and local trends in housing markets and interest/profit rates, portfolio seasoning, account management policies and practices, current levels of write-offs, adjustments to the period of time between loss identification and write-off, changes in laws and regulations and other factors which can affect customer payment patterns on outstanding loans, such as natural disasters. These risk factors, where relevant, are taken into account when calculating the appropriate level of impairment allowances 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.

Write-off of loans ,advances and financing

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

Reversal of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan/financing impairment allowance account accordingly. The write-back is recognised in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

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

Renegotiated loans/financing

Loans/financing subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up to date loans/financing for measurement purposes once a minimum number of payments required have been received. Loans/financing subject to collective impairment assessment whose terms have been renegotiated are segregated from other parts of the loan/financing portfolio for the purposes of collective impairment assessment, to reflect their risk profile. Loans/financing subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans/financing that have been classified as renegotiated retain this classification until maturity or derecognition.

A loan/financing that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan/financing is substantially a different financial instrument.

(n) Property and Equipment

i) Property

Property for own use, comprising freehold land and buildings, and leasehold land and buildings are stated at their revalued amount less any subsequent 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 profit or loss to the extent of any deficits arising on revaluation previously charged to the profit or loss 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 profit or loss.

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 profit or loss. 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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 profit or loss.

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) Debt securities issued, subordinated liabilities, multi-currency sukuk 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 are 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 measured at amortised cost using the effective interest method, 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, is carried at amortised cost, with profit payable recognised on an accruals basis.

(s) 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.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security,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.

(t) 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.

(u) Derivative financial instruments 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 profit or loss.

(u) Derivative financial instruments and hedge accounting (Cont'd)

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 profit or loss, 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 profit or loss 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 profit or loss.

The accumulated gains and losses recognised in other comprehensive income are recycled to profit or loss in the periods in which the hedged item will affect the profit or loss. 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 profit or loss. 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 profit or loss.

v) 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".

As stipulated by BNM's "Guidelines on Profit Equalisation Reserve", PER is segregated into the portion belonging to the depositors and HSBC Amanah Malaysia Berhad based on the contractual profit sharing ratio. The portion belonging to the depositors continues to be recognised as other liabilities whilst the portion belonging to the HSBC Amanah Malaysia Berhad has been transferred to retained earnings.

(w) 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.

(x) 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(y) 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.

(z) Dividends

Dividends proposed after the balance sheet date, as disclosed as a separate component of shareholder's equity.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management

a) Introduction and overview

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

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

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

Risk management framework

The Group and the Bank'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 and the Bank regularly review 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 and the Bank'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 and the Bank'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 HSBC 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 and the Bank also has an internal Operational Risk and Internal Control Committee to oversee and manage operational risk and ensure that adequate controls are maintained over operational processes.

b) Credit risk management

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its payment obligations under a contract. It arises principally from cash and deposit placements, direct lending, trade finance and holdings of investment debt securities. The Group and the Bank 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 credit, market, operational and sustainability risk, has a functional reporting line to the HSBC Asia Pacific Regional Chief Risk Officer.

The Group and the Bank 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 Risk Committee, Executive Committee, Risk Management Committee and the Board, covering:

- risk concentrations and exposures by industry (main sectors exposures);
- large customer group exposures;
- exposures by Customer Risk Rating (asset quality by CRR)

b) Credit risk management (Cont'd)

- large impaired accounts and impairment allowances.
- risk identification 'Worry & Watch' List trend and Top 10 Distressed names;
- rescheduled and restructured loan/financing.

The Group and the Bank has systems in place to control and monitor its exposure at the customer and counterparty level. A regional Credit Review and Risk Identification (CRRI) team undertakes regular thematic reviews based on a representative sample of accounts to assess the level and trend of portfolio credit risk, integrity of risk grades, quality of credit risk assessment and the approval process as well as quality of credit risk management and control activities. Where risk ratings are considered to be inappropriate, CRRI will discuss with the management and their subsequent recommendations for revised grades must then be assigned to the facilities concerned.

In addition, the regional CRRI team undertakes periodic sampling to assess the quality of credit assessment, integrity of customer risk ratings, quality of management controls, adherence to policy and procedures and use of appropriate approval authority. Furthermore, credit risk surveillance is also undertaken by a local Risk Identification team to identity potential high risk accounts for remedial or mitigating actions to be taken at an early stage.

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

Impairment assessment

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

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

Past due but not impaired loans/financing and investment debt securities

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

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

Loans/financing with renegotiated terms

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

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).

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 at 31 December 2013 amounted to RM740.9 million (2012: RM617.8 million) for the Group and RM635.6 million (2012: RM552.9 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 RM2.333 billion (2012: RM4.597 billion) and RM2.244 billion (2012: RM4.415 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

Derivatives

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

Offsetting financial assets and liabilities

The disclosures set out in the table below include financial assets and financial liabilities that are subject to an enforceable master netting agreement, irrespective of whether they are offset in the statement of financial position. Financial assets and financial liabilities are offset and the net amount is reports in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and liability simultaneously ('the offset criteria'). During the year, no financial assets or financial liabilities were offset in the statement of financial position because the ISDA does not meet the criteria for offsetting in the statement of financial position. The ISDA creates for the parties to the agreement, a right of set off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group and the Bank, or its counterparties. Financial instruments subject to offsetting, enforceable master netting agreements and similar agreements are shown as follows:-

RM'000	(i) Carrying amounts of financial instruments in the statement of financial position*	(ii) Financial instruments related to (i), that are subject to an enforceable master netting agreement	(iii) Financial instruments related to (ii) that are not offset	(iv) Cash Collateral Received	(v) Net amount of (i) less the sum of (iii) and (iv)
	Group/Bank	Group & Bank	Group & Bank	Group & Bank	Group/Bank
31 Dec 2013					
Derivative financial assets	1,320,144/ 1,413,325	674,927	674,927	109,216	536,001/ 629,182
Derivative financial liabilities	1,098,453/ 1,160,067	674,927	674,927	276,654	146,872/ 208,486
31 Dec 2012					
Derivative financial assets	1,079,988/ 1,114,866	500,390	500,390	111,237	468,361/ 503,239
Derivative financial liabilities	781,671/ 792,496	500,390	500,390	33,470	247,811/ 258,636

** None of which were offset during the financial year*

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

i) Exposure to credit risk

Group	31 Dec 2013 Loans, advances and financing to customers RM'000	Loans and advances to banks* RM'000	Investment Securities** RM'000
Carrying amount	**44,659,904**	**22,343,117**	**6,482,694**
Assets at amortised cost			
Individually impaired:			
Gross amount	**792,365**	-	-
Allowance for impairment	**(318,112)**	-	-
Carrying amount	**474,253**	-	-
Past due but not impaired:			
Carrying amount	**2,778,541**	-	-
Past due comprises:			
up to 29 days	**1,781,965**	-	-
30 - 59 days	**496,681**	-	-
60 - 89 days	**499,895**	-	-
90 - 179 days	-	-	-
180 days and over	-	-	-
	2,778,541	-	-
Neither past due nor impaired:			
Strong	**25,025,442**	**22,280,619**	-
Medium - good	**8,393,178**	**62,498**	-
Medium - satisfactory	**7,702,880**	-	-
Substandard	**667,926**	-	-
Carrying amount	**41,789,426**	**22,343,117**	-
of which includes accounts with renegotiated terms	***205,423***	-	-
Collective allowance for impairment	**(382,316)**	-	-
Carrying amount - amortised cost	**44,659,904**	**22,343,117**	-
Available-for-sale (AFS)			
Neither past due nor impaired:			
Strong	-	-	**6,067,045**
Medium-good	-	-	**157,534**
Medium-satisfactory	-	-	**258,115**
Carrying amount ***	-	-	**6,482,694**
Carrying amount-fair value	-	-	**6,482,694**

In addition to the above, the Group had entered into lending commitments of RM36.789 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 RM3.6 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

*** No available-for-sale accounts were renegotiated during the year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

i) Exposure to credit risk (Cont'd)

Bank	31 Dec 2013 Loans, advances and financing to customers RM'000	Loans and advances to banks* RM'000	Investment Securities** RM'000
Carrying amount	**35,484,730**	**20,639,481**	**5,141,688**
Assets at amortised cost			
Individually impaired:			
Gross amount	**625,459**	**-**	**-**
Allowance for impairment	**(276,975)**	**-**	**-**
Carrying amount	**348,484**	**-**	**-**
Past due but not impaired:			
Carrying amount	**2,198,760**	**-**	**-**
Past due comprises:			
up to 29 days	**1,411,554**	**-**	**-**
30 - 59 days	**410,993**	**-**	**-**
60 - 89 days	**376,213**	**-**	**-**
90 - 179 days	**-**	**-**	**-**
180 days and over	**-**	**-**	**-**
	2,198,760	**-**	**-**
Neither past due nor individually impaired:			
Strong	**19,997,866**	**20,576,983**	**-**
Medium-good	**6,979,938**	**62,498**	**-**
Medium-satisfactory	**5,632,085**	**-**	**-**
Substandard	**590,623**	**-**	**-**
Carrying amount	**33,200,512**	**20,639,481**	**-**
of which includes accounts with renegotiated terms	***198,149***	**-**	**-**
Collective allowance for impairment	**(263,026)**	**-**	**-**
Carrying amount-amortised cost	**35,484,730**	**20,639,481**	**-**
Available-for-sale (AFS)			
Neither past due nor impaired:			
Strong	**-**	**-**	**4,726,039**
Medium-good	**-**	**-**	**157,534**
Medium-satisfactory	**-**	**-**	**258,115**
Carrying amount ***	**-**	**-**	**5,141,688**
Carrying amount-fair value	**-**	**-**	**5,141,688**

In addition to the above, the Bank had entered into lending commitments of RM31.677 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 RM3.1 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

*** No available-for-sale accounts were renegotiated during the year.

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

i) Exposure to credit risk (Cont'd)

Group	31 Dec 2012 Loans, advances and financing to customers RM'000	Loans and advances to banks* RM'000	Investment Securities** RM'000
Carrying amount	42,265,895	18,905,147	7,529,418
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	-	-
90 - 179 days	-	-	-
180 days and over	-	-	-
	2,720,451	-	-
Neither past due nor impaired:			
Strong	23,764,600	18,829,069	-
Medium-good	7,809,045	76,078	-
Medium-satisfactory	7,116,116	-	-
Substandard	783,259	-	-
Carrying amount	39,473,020	18,905,147	-
of which includes accounts with renegotiated terms	*231,222*	-	-
Collective allowance for impairment	(401,441)	-	-
Carrying amount-amortised cost	42,265,895	18,905,147	-
Available-for-sale (AFS)			
Neither past due nor impaired:			
Strong	-	-	7,214,319
Medium-satisfactory	-	-	315,099
Carrying amount ***	-	-	7,529,418
Carrying amount-fair value	-	-	7,529,418

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

*** No available-for-sale accounts were renegotiated during the year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

i) Exposure to credit risk (Cont'd)

Bank	**31 Dec 2012** Loans, advances and financing to customers RM'000	Loans and advances to banks* RM'000	Investment Securities** RM'000
Carrying amount	33,782,016	18,908,302	6,264,135
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	18,832,224	-
Medium-good	6,246,536	76,078	-
Medium-satisfactory	5,624,520	-	-
Substandard	674,104	-	-
Carrying amount	31,474,859	18,908,302	-
of which includes accounts with renegotiated terms	*231,222*	-	-
Collective allowance for impairment	(256,588)	-	-
Carrying amount-amortised cost	33,782,016	18,908,302	-
Available-for-sale (AFS)			
Neither past due nor impaired:			
Strong	-	-	5,949,036
Medium-satisfactory	-	-	315,099
Carrying amount ***	-	-	6,264,135
Carrying amount-fair value	-	-	6,264,135

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

*** No available-for-sale accounts were renegotiated during the year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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 2013		31 Dec 2012	
	RM'000	**RM'000**	RM'000	RM'000
Carrying amount	**22,343,117**	**6,482,694**	18,905,147	7,529,418
By Sector				
Finance, insurance and business services	**22,343,117**	**1,647,473**	18,905,147	1,018,396
Others	**-**	**4,835,221**	-	6,511,022
	22,343,117	**6,482,694**	18,905,147	7,529,418
By geographical location				
Within Malaysia	**20,898,475**	**6,482,694**	16,688,493	7,529,418
Outside Malaysia	**1,444,642**	**-**	2,216,654	-
	22,343,117	**6,482,694**	18,905,147	7,529,418

	Bank			
	Loans and advances to banks*	**Investment Securities****	Loans and advances to banks*	Investment Securities**
	31 Dec 2013		31 Dec 2012	
	RM'000	**RM'000**	RM'000	RM'000
Carrying amount	**20,639,481**	**5,141,688**	18,908,302	6,264,135
By Sector				
Finance, insurance and business services	**20,639,481**	**1,622,482**	18,908,302	969,765
Others	**-**	**3,519,206**	-	5,294,370
	20,639,481	**5,141,688**	18,908,302	6,264,135
By geographical location				
Within Malaysia	**19,194,839**	**5,141,688**	16,762,542	6,264,135
Outside Malaysia	**1,444,642**	**-**	2,145,760	-
	20,639,481	**5,141,688**	18,908,302	6,264,135

* 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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 include:

- 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

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

The balances in the 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/financing and other credit-related commitments and financial guarantees and similar contracts are generally not recognised on the statement of financial position.

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/financing 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 2013					
Non-derivative liabilities					
Deposits from customers	**32,981,079**	**19,298,609**	**7,789,158**	**179,491**	**-**
Deposits and placements of banks and other financial institutions	**1,653,999**	**4,527,384**	**2,167,237**	**7,064**	**332**
Bills and acceptances payable	**902,329**	**4,266**	**-**	**-**	**-**
Other liabilities	**1,132,855**	**518,205**	**-**	**-**	**-**
Multi Currency Sukuk Programme	**-**	**4,688**	**14,063**	**551,563**	**-**
Subordinated bonds	**-**	**11,750**	**35,250**	**655,375**	**753,112**
Loans and other credit-related commitments	**20,949,732**	**3,943,713**	**2,166,006**	**1,485,132**	**-**
Financial guarantees and similiar contracts	**2,387,304**	**260,023**	**250,616**	**719,192**	**155**
	60,007,298	**28,568,638**	**12,422,330**	**3,597,817**	**753,599**
Derivative liabilities					
Outflow	**-**	**(1,808)**	**(59,540)**	**(161,845)**	**-**
Inflow	**-**	**2,203**	**57,949**	**166,327**	**-**
	-	**395**	**(1,591)**	**4,482**	**-**

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 (Restated)					
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	289,449	4,264
Bills and acceptances payable	497,401	6,948	-	-	-
Other liabilities	866,591	743,870	-	-	-
Multi Currency Sukuk Programme	-	4,688	14,063	570,313	-
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
	57,253,240	29,661,446	16,941,127	4,413,907	912,285
Derivative liabilities					
Outflow	-	(1,942)	(40,034)	(92,367)	(41,588)
Inflow	-	2,364	42,629	95,554	55,250
	-	422	2,595	3,187	13,662

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

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

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

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 2013					
Non-derivative liabilities					
Deposits from customers	**28,502,825**	**14,101,378**	**6,404,808**	**133,202**	**-**
Deposits and placements of banks and other financial institutions	**1,627,184**	**4,525,011**	**2,144,588**	**2,501**	**332**
Bills and acceptances payable	**891,357**	**4,266**	**-**	**-**	**-**
Other liabilities	**1,180,917**	**481,681**	**-**	**-**	**-**
Subordinated bonds	**-**	**11,750**	**35,250**	**655,375**	**753,112**
Loans and other credit-related commitments	**18,714,855**	**3,352,305**	**2,016,528**	**717,060**	**-**
Financial guarantees and similiar contracts	**1,897,857**	**255,368**	**235,698**	**678,031**	**155**
	52,814,995	**22,731,759**	**10,836,872**	**2,186,169**	**753,599**
Derivative liabilities					
Outflow	**-**	**(1,808)**	**(56,872)**	**(150,484)**	**-**
Inflow	**-**	**2,203**	**55,688**	**156,695**	**-**
	-	**395**	**(1,184)**	**6,211**	**-**

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 (Restated)					
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	288,838	4,264
Bills and acceptances payable	481,975	6,948	-	-	-
Other liabilities	870,103	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
	51,166,979	24,755,008	13,775,052	3,191,562	912,285
Derivative liabilities					
Outflow	-	(1,942)	(40,034)	(92,367)	(41,588)
Inflow	-	2,364	42,629	95,554	55,250
	-	422	2,595	3,187	13,662

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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 and basis risk will reduce the Group and the Bank's income or the value of its portfolios.

The objective of the Group and the Bank'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 and the Bank separate 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 and the Bank'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 and the Bank have 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 and the Bank 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 and the Bank 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 and the Bank 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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 2013**	**Average**	**Maximum**	**Minimum**
Foreign currency risk	**501**	**852**	**2,272**	**280**
Interest rate risk	**4,654**	**5,496**	**8,247**	**2,933**
Credit spread risk	**770**	**1,015**	**1,615**	**284**
Overall	**4,300**	**5,534**	**8,503**	**2,813**
	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 2013**	**Average**	**Maximum**	**Minimum**
Foreign currency risk	**130**	**65**	**279**	**7**
Profit rate risk	**84**	**141**	**336**	**83**
Credit spread risk	**-**	**-**	**-**	**-**
Overall	**176**	**147**	**328**	**89**
	At 31 Dec 2012	Average	Maximum	Minimum
Foreign currency risk	22	59	414	5
Profit rate risk	96	138	251	90
Credit spread risk	-	-	-	-
Overall	87	352	999	87

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.

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.

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.

iii) 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-13 RM'000	31-Dec-12 RM'000
+100 basis points parallel shift in yield curves	**269,486**	185,685
-100 basis points parallel shift in yield curves	**(255,496)**	(177,200)
+25 basis points at the beginning of each quarter	**175,741**	139,944
-25 basis points at the beginning of each quarter	**(173,386)**	(135,610)

Change in projected net interest income in next 12 months arising from a shift in interest rates of:	Bank	
	31-Dec-13 RM'000	31-Dec-12 RM'000
+100 basis points parallel shift in yield curves	**231,025**	169,583
-100 basis points parallel shift in yield curves	**(219,728)**	(161,760)
+25 basis points at the beginning of each quarter	**148,488**	132,207
-25 basis points at the beginning of each quarter	**(147,187)**	(127,889)

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

Change in projected net interest/finance income in next 12 months arising from a shift in interest/profit rates of:	Group	
	31-Dec-13 RM'000	31-Dec-12 RM'000
+100 basis points parallel shift in yield curves	**(74,472)**	(141,429)
-100 basis points parallel shift in yield curves	**74,472**	141,429

Change in projected net interest income in next 12 months arising from a shift in interest rates of:	Bank	
	31-Dec-13 RM'000	31-Dec-12 RM'000
+100 basis points parallel shift in yield curves	**(47,719)**	(104,238)
-100 basis points parallel shift in yield curves	**47,719**	104,238

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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 vulnerabilities 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgements

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

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

i) Impairment of loans, advances and financing

The Group and the Bank's accounting policy for losses arising from the impairment of customer loans, advances and financing is described in Note 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) Fair value of financial instruments carried at fair value

The accounting policies which determine the classification of financial instruments and the use of assumptions and estimation in valuing them are described in Note 3(g)(vi) to the financial statements. The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, in cases where the Group and the Bank manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the Group and the Bank measures the fair value of the group of financial instruments on a net basis, but presents the underlying financial assets and liabilities separately in the financial statements, unless they satisfy the MFRS offsetting criteria as described in Note 3(g)(iv) to the financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following table sets out the financial instruments carried at fair value.

	Group			
	Level 1	**Level 2**	**Level 3**	**Total**
2013	**(RM'000)**	**(RM'000)**	**(RM'000)**	**(RM'000)**
Financial Assets Held-for-Trading (Note 8)	**946,914**	**1,386,476**	**-**	**2,333,390**
Financial Investments Available-for-Sale* (Note 9)	**5,625,525**	**857,169**	**-**	**6,482,694**
Derivative financial assets (Note 39)	**2,612**	**1,237,349**	**80,183**	**1,320,144**
	6,575,051	**3,480,994**	**80,183**	**10,136,228**
Trading liabilities***	**98,764**	**3,319,868**	**1,390,073**	**4,808,705**
Derivative financial liabilities (Note 39)	**2,555**	**1,070,886**	**25,012**	**1,098,453**
	101,319	**4,390,754**	**1,415,085**	**5,907,158**
2012				
Financial Assets Held-for-Trading (Note 8)	2,600,631	1,996,476	-	4,597,107
Financial Investments Available-for-Sale* (Note 9)	5,903,185	1,626,233	-	7,529,418
Derivative financial assets (Note 39)	1,161	1,046,549	32,278	1,079,988
Other trading assets **	-	764,670	-	764,670
	8,504,977	5,433,928	32,278	13,971,183
Trading liabilities***	232,875	3,609,738	1,561,993	5,404,606
Derivative financial liabilities (Note 39)	3,065	768,577	10,029	781,671
	235,940	4,378,315	1,572,022	6,186,277

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgements (Cont'd)

ii) Fair value of financial instruments carried at fair value (Cont'd)

** 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 securities purchased under resale agreements.*

**** Trading liabilities consist of structured investments, negotiable instruments of deposits classified as trading, net short position in securities and settlement accounts classified as held for trading. Structured investments 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).*

	Bank			
2013	**Level 1 (RM'000)**	**Level 2 (RM'000)**	**Level 3 (RM'000)**	**Total (RM'000)**
Financial Assets Held-for-Trading (Note 8)	**857,255**	**1,386,476**	**-**	**2,243,731**
Financial Investments Available-for-Sale* (Note 9)	**4,284,519**	**857,169**	**-**	**5,141,688**
Derivative financial assets (Note 39)	**2,603**	**1,320,033**	**90,689**	**1,413,325**
	5,144,377	**3,563,678**	**90,689**	**8,798,744**
Trading liabilities***	**98,764**	**1,722,024**	**1,189,755**	**3,010,543**
Derivative financial liabilities (Note 39)	**2,551**	**1,132,504**	**25,012**	**1,160,067**
	101,315	**2,854,528**	**1,214,767**	**4,170,610**
2012				
Financial Assets Held-for-Trading (Note 8)	2,600,631	1,813,967	-	4,414,598
Financial Investments Available-for-Sale* (Note 9)	4,661,533	1,602,602	-	6,264,135
Derivative financial assets (Note 39)	1,161	1,078,969	34,736	1,114,866
Other trading assets**	-	764,670	-	764,670
	7,263,325	5,260,208	34,736	12,558,269
Trading liabilities***	232,875	2,668,997	1,316,816	4,218,688
Derivative financial liabilities (Note 39)	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 securities purchased under resale agreements.*

**** Trading liabilities consist of structured investments, negotiable instruments of deposits classified as trading, net short position in securities and settlement accounts classified as held for trading. Structured investments 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).*

Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period. Transfers from Level 1 to Level 2 reflect the reclassification of corporate debt securities that exhibit limited liquidity in the secondary market.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgements (Cont'd)

ii) Fair value of financial instruments carried at fair value (Cont'd)

Control framework

Fair values are subject to a control framework that aims to ensure that they are either determined, or validated, by a function independent of the risk-taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is used. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the Group and the Bank will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, inter alia:

- the extent to which prices may be expected to represent genuine traded or tradable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the balance sheet date; and
- the manner in which the data was sourced.

For fair values determined using a valuation model, the control framework may include, as applicable, development or validation by independent support functions of (i) the logic within valuation models; (ii) the inputs to those models; (iii) any adjustments required outside the valuation models; and (iv) where possible, model outputs. Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an on-going basis.

To this end, ultimate responsibility for the determination of fair values lies within the Finance function, which reports functionally to the HSBC Group Finance Director. Finance establishes the accounting policies and procedures governing valuation, and is responsible for ensuring that these comply with all relevant accounting standards.

Determination of fair value of financial instruments carried at fair value

Fair values are determined according to the following hierarchy:

(a) Level 1 – Quoted market price

Financial instruments with quoted prices for identical instruments in active markets that the Group and the Bank can access at the measurement date.

(b) Level 2 – Valuation technique using observable inputs

Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

(c) Level 3 – Valuation technique with significant unobservable inputs

Financial instruments valued using valuation techniques where one or more significant inputs are unobservable

The best evidence of fair value is a quoted price in an actively traded market. The fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities used. 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 applied. In the event that the market for a financial instrument is not active, a valuation technique is used.

5 Use of estimates and judgements (Cont'd)

ii) Fair value of financial instruments carried at fair value (Cont'd)

Determination of fair value of financial instruments carried at fair value (Cont'd)

The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. The bid/offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which they would be willing to sell. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the instrument requires additional work during the valuation process.

Valuation techniques

Valuation techniques incorporate assumptions about factors that other market participants would use in their valuations. A range of valuation techniques is employed, dependent upon the instrument type and available market data. Most valuation techniques are based upon discounted cash flow analysis, in which expected future cash flows are calculated and discounted to present value using a discounting curve. Prior to consideration of credit risk, the expected future cash flows may be known, as would be the case for the fixed leg of an interest/profit rate swap, or may be uncertain and require projection, as would be the case for the floating leg of an interest/profit rate swap. Projection uses market forward curves, if available. In option models, the probability of different potential future outcomes must be considered. In addition, the values of some products are dependent upon more than one market factor, and in these cases it will typically be necessary to consider how movements in one market factor may impact the other market factors. The model inputs necessary to perform such calculations include interest/profit rate yield curves, exchange rates, volatilities, correlations, prepayment and default rates.

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the measurement of fair value is more judgmental. If, in the opinion of management, a significant proportion of the instrument's inception profit ('day 1 gain or loss') or greater than 5% of the instrument's carrying value is driven by unobservable inputs, an instrument in its entirety is classified as valued using significant unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used). All fair value adjustments are included within the levelling determination.

Structured notes issued and certain other hybrid instrument liabilities are included within trading liabilities and are measured at fair value. The credit spread applied to these instruments is derived from the spreads at which the Group and the Bank issue structured notes.

Gains and losses arising from changes in the credit spread of liabilities issued by the Group and the Bank reverse over the contractual life of the debt, provided that the debt is not repaid at a premium or a discount.

Changes in fair value are generally subject to a profit and loss analysis process. This process disaggregates changes in fair value into three high level categories; (i) portfolio changes, such as new transactions or maturing transactions, (ii) market movements, such as changes in foreign exchange rates or equity prices, and (iii) other, such as changes in fair value adjustments, discussed below.

5 Use of estimates and judgements (Cont'd)

ii) Fair value of financial instruments carried at fair value (Cont'd)

Fair value adjustments

Fair value adjustments are adopted when the Group and the Bank consider that there are additional factors that would be considered relevant by a market participant that are not incorporated within the valuation model. The Group and the Bank classify fair value adjustments as either 'risk-related' or 'model-related'.

Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound, but this may not result in profit or loss.

Risk-related adjustments

(i) Bid-offer

MFRS 13 requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer cost would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position.

(ii) Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, there exists a range of possible values that the financial instrument or market parameter may assume and an adjustment may be necessary to reflect the likelihood that in estimating the fair value of the financial instrument, market participants would adopt more conservative values for uncertain parameters and/or model assumptions than those used in the valuation model.

(iii) Credit valuation adjustment

The credit valuation adjustment is an adjustment to the valuation of over-the-counter derivative contracts to reflect within fair value the possibility that the counterparty may default and the Group and the Bank may not receive the full market value of the transactions. Further detail is provided below.

(iv) Debit valuation adjustment

The debit valuation adjustment is an adjustment to the valuation of over-the-counter derivative contracts to reflect within fair value the possibility that the Group and the Bank may default, and that the Group and the Bank may not pay full market value of the transactions.

Model-related adjustments

(i) Model limitation

Models used for portfolio valuation purposes may be based upon a simplifying set of assumptions that do not capture all material market characteristics. Additionally, markets evolve, and models that were adequate in the past may require development to capture all material market characteristics in current market conditions. In these circumstances, model limitation adjustments are adopted. As model development progresses, model limitations are addressed within the valuation models and a model limitation adjustment is no longer needed.

(ii) Inception profit (Day 1 profit or loss reserves)

Inception profit adjustments are adopted where the fair value estimated by a valuation model is based on one or more significant unobservable inputs.

5 Use of estimates and judgements (Cont'd)

ii) Fair value of financial instruments carried at fair value (Cont'd)

Fair value adjustments

Credit valuation adjustment/ debit valuation adjustment methodology

The Group and the Bank calculate a separate credit valuation adjustment ('CVA') and debit valuation adjustment ('DVA') for each counterparty to which the Group and the Bank have exposure to.

The Group and the Bank calculate the CVA by applying the probability of default ('PD') of the counterparty, conditional on the non-default of the Group and Bank, to the expected positive exposure of the Group and the Bank to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, the Group and the Bank calculate the DVA by applying the PD of the Group and the Bank, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to Group and the Bank, and multiplying by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

For most products, the Group and the Bank use a simulation methodology to calculate the expected positive exposure to a counterparty. This incorporates a range of potential exposures across the portfolio of transactions with the counterparty over the life of the portfolio. The simulation methodology includes credit mitigants such as counterparty netting agreements and collateral agreements with the counterparty. A standard loss given default ('LGD') assumption of 60% is generally adopted for developed market exposures, and 75% for emerging market exposures. Alternative loss given default assumptions may be adopted where both the nature of the exposure and the available data support this.

The methodologies do not, in general, account for 'wrong-way risk'. Wrong-way risk arises when the underlying value of the derivative prior to any CVA is positively correlated to the probability of default by the counterparty. When there is significant wrong-way risk, a trade-specific approach is applied to reflect the wrong-way risk within the valuation.

With the exception of certain central clearing parties, the Group and the Bank include all third-party counterparties in the CVA and DVA calculations and does not net these adjustments across the Group and the Bank's entities. During the year, the Group and the Bank refined the methodologies used to calculate the CVA and DVA to more accurately reflect credit mitigation. The Group and the Bank review and refine the CVA and DVA methodologies on an ongoing basis.

Valuation of uncollateralised derivatives

The Group and the Bank value uncollateralised derivatives by discounting expected future cash flows at a benchmark interest/profit rate. This approach has historically been adopted across the industry, and has therefore been an appropriate basis for fair value.

5 Use of estimates and judgements (Cont'd)

ii) Fair value of financial instruments carried at fair value (Cont'd)

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

The following table provides a reconciliation of the movement between opening and closing balances of Level 3 financial instruments, measured at fair value using a valuation technique with significant unobservable inputs:

	2013			2012		
	Derivative financial assets	**Derivative financial liabilities**	**Trading Liabilities**	Derivative financial assets	Derivative financial liabilities	Trading Liabilities
Group (RM'000)						
Balance at 1 January	**32,278**	**10,029**	**1,561,993**	62,909	4,289	2,026,925
Total gains or losses:						
-in profit or loss	**53,253^^**	**16,878^**	**(9,479)^^**	(21,749)^	10,831^	41,230^
- in OCI#	**563**	**750**	**(47,162)**	-	-	(6,415)
Issues	**-**	**-**	**379,701**	-	-	80,540
Settlements	**(3,166)**	**(1,462)**	**(416,626)**	(1,792)	(2,645)	(381,884)
Transfers into Level 3	**1**	**-**	**29,003**	399	-	41,655
Transfer out of Level 3	**(2,746)**	**(1,183)**	**(107,357)**	(7,489)	(2,446)	(240,058)
Balance at 31 December	**80,183**	**25,012**	**1,390,073**	32,278	10,029	1,561,993

	2013			2012		
	Derivative financial assets	**Derivative financial liabilities**	**Trading Liabilities**	Derivative financial assets	Derivative financial liabilities	Trading Liabilities
Bank (RM'000)						
Balance at 1 January	**34,736**	**12,519**	**1,316,816**	62,636	4,289	1,984,011
Total gains or losses:						
-in profit or loss	**62,484^^**	**14,389^**	**(7,286)^^**	(19,018)^	13,321^	42,357^
-in OCI#	**563**	**750**	**(47,162)**	-	-	(6,415)
Issues	**-**	**-**	**257,436**	-	-	34,992
Settlements	**(3,166)**	**(1,463)**	**(280,537)**	(1,792)	(2,645)	(539,726)
Transfers into Level 3	**1**	**-**	**29,003**	399	-	41,655
Transfer out of Level 3	**(3,929)**	**(1,183)**	**(78,515)**	(7,489)	(2,446)	(240,058)
Balance at 31 December	**90,689**	**25,012**	**1,189,755**	34,736	12,519	1,316,816

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

Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

For derivative financial assets/liabilities, transfers out of level 3 were due to the maturity of the derivatives or as a result of early termination.

For trading liabilities, transfers into level 3 were due to new deals with unobservable volatilities. Transfers out of level 3 resulted from maturity or early termination of the instruments.

For trading liabilities, realised and unrealised gains and losses are presented in profit or loss under 'Net trading income'.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgements (Cont'd)

ii) Fair value of financial instruments carried at fair value (Cont'd)

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy (Cont'd)

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

2013 **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	**(1,355)^**	**2,745^**	**(25,929)^^**
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the reporting year			
-Net trading income	**54,608^^**	**14,133^**	**16,450^**
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^
2013 **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	**(1,033)^**	**194^**	**(26,809)^^**
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	**63,517^^**	**14,195^**	**19,523^**
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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgements (Cont'd)

ii) Fair value of financial instruments carried at fair value (Cont'd)

Quantitative information about significant unobservable inputs in Level 3 valuations

Level 3 fair values are estimated using unobservable inputs for the financial assets and liabilities. The following table shows the valuation techniques used in the determination of fair values within Level 3 at Group basis for the current year, as well as the key unobservable inputs used in the valuation models.

Type of Financial Instrument	Valuation Technique	Key unobservable inputs	Range of estimates for unobservable input
Foreign currency options based derivative financial assets/liabilities	Option model	Volatility of foreign currency rates	3.97% - 19.33%
Cross currency swap based derivative financial assets/liabilities	Discounted cash flow model	Interest rate basis. USD/MYR cross currency swap curve is unobservable for tenors above 7 years.	4.05%*
Trading liabilities	Option model	Interest rate volatility Foreign currency volatility Long term equity volatility Fund volatility	12.50% - 18.80% 1.87% - 17.88% 7.38% - 66.86% 7.21% - 72.54%

* *Upper and lower ranges are the same*

Key unobservable inputs to Level 3 financial instruments

Volatility

Volatility is a measure of the anticipated future variability of a market price. Volatility tends to increase in stressed market conditions, and decrease in calmer market conditions. Volatility is an important input in the pricing of options. In general, the higher the volatility, the more expensive the option will be. This reflects both the higher probability of an increased return from the option, and the potentially higher costs that the Group and the Bank may incur in hedging the risks associated with the option. If option prices become more expensive, this will increase the value of the Group and the Bank's long option positions (i.e. the positions in which the Group and the Bank has purchased options), while the Group and the Bank's short option positions (i.e. the positions in which the Group and the Bank has sold options) will suffer losses.

Volatility varies by underlying reference market price, and by strike and maturity of the option. Volatility also varies over time.

Certain volatilities, typically those of a longer-dated nature, are unobservable. The unobservable volatility is then estimated from observable data. For example, longer-dated volatilities may be extrapolated from shorter-dated volatilities.

The range of unobservable volatilities quoted in the table reflects the wide variation in volatility inputs by reference market price. For example, foreign exchange volatilities for a pegged currency may be very low, whereas for non-managed currencies the foreign exchange volatility may be higher. As a further example, volatilities for deep-in-the money or deep-out-of-the-money equity options may be significantly higher than at-the-money options. For any single unobservable volatility, the uncertainty in the volatility determination is significantly less than the range quoted above.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgements (Cont'd)

ii) **Fair value of financial instruments carried at fair (Cont'd)**

Key unobservable inputs to Level 3 financial instruments

Interest rate/Cross currency basis

Cross currency basis rates represent the difference in interest rates between different currencies. Cross currency basis rates are used to revalue cross currency swaps and may not be observable in more illiquid markets.

Effect of changes in significant non-observable assumptions to reasonably possible alternatives

As discussed above, the fair values of financial instruments are, in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair values to reasonably possible alternative assumptions:

	2013 Effect on profit or loss		2012 Effect on profit or loss	
	Favourable	**(Unfavourable)**	Favourable	(Unfavourable)
Group (RM'000)				
Derivative financial assets	**6,686**	**(6,686)**	4,020	(4,020)
Derivative financial liabilities	**4,737**	**(4,737)**	2,738	(2,738)
Trading liabilities	**738**	**(738)**	-	-
	12,161	**(12,161)**	6,758	(6,758)

Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters using statistical techniques. The statistical techniques aim to apply a 95% confidence interval.

When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or the most unfavourable change from varying the assumptions individually.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Cash and Short Term Funds

	Group		Bank	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
		Restated		Restated
Cash and balances with banks and other financial institutions	**1,625,703**	2,671,894	**1,482,497**	2,521,508
Money at call and interbank placements maturing within one month	**13,828,804**	10,042,244	**11,076,289**	8,543,310
	15,454,507	12,714,138	**12,558,786**	11,064,818

7 Deposits and Placements with Banks and Other Financial Institutions

	Group		Bank	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Licensed banks	**212,790**	-	**1,568,825**	1,652,475
Bank Negara Malaysia	**3,500,000**	2,500,000	**3,500,000**	2,500,000
Other financial institutions	**298,550**	492,993	**134,600**	492,993
	4,011,340	2,992,993	**5,203,425**	4,645,468

8 Financial Assets Held-for-Trading

	Group		Bank	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
At fair value	**RM'000**	RM'000	**RM'000**	RM'000
Money market instruments:				
Malaysian Government treasury bills	**56,941**	811,410	**56,941**	628,901
Bank Negara Malaysia bills and notes	**1,201,505**	641,602	**1,201,505**	641,602
Bank Negara Malaysia Islamic bills and notes	**149,605**	543,464	**149,605**	543,464
Malaysian Government securities	**482,409**	1,988,396	**482,409**	1,988,396
Malaysian Government Islamic bonds	**243,211**	323,271	**153,552**	323,271
Islamic fixed rate bonds	**8,915**	-	**8,915**	-
Cagamas bonds and notes	**7,393**	2,502	**7,393**	2,502
	2,149,979	4,310,645	**2,060,320**	4,128,136
Unquoted securities:				
Private debt securities	**183,411**	286,462	**183,411**	286,462
(including commercial paper)	**2,333,390**	4,597,107	**2,243,731**	4,414,598

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

8 Financial Assets Held-for-Trading (Cont'd)

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

	Group		Bank	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
Money market instruments:	**RM'000**	RM'000	**RM'000**	RM'000
Malaysian Government treasury bills				
AA+ to AA-	**56,941**	811,410	**56,941**	628,901
Bank Negara Malaysia bills and notes				
AA+ to AA-	**1,201,505**	641,602	**1,201,505**	641,602
Bank Negara Malaysia Islamic bills				
AA+ to AA-	**149,605**	543,464	**149,605**	543,464
Malaysian Government securities				
AA+ to AA-	**482,409**	1,988,396	**482,409**	1,988,396
Malaysian Government Islamic bonds				
AA+ to AA-	**243,211**	323,271	**153,552**	323,271
Islamic fixed rate bonds				
AA+ to AA-	**8,915**	-	**8,915**	-
Cagamas bonds and notes				
Unrated	**7,393**	2,502	**7,393**	2,502
Unquoted securities:				
Private debt securities				
(including commercial paper)				
AA+ to AA-	**16,327**	-	**16,327**	-
A+ to A-	**-**	21,528	**-**	21,528
BBB+ to BBB-	**19,415**	12,664	**19,415**	12,664
Unrated	**147,669**	252,270	**147,669**	252,270
	2,333,390	4,597,107	**2,243,731**	4,414,598

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

9 Financial Investments Available-for-Sale

	Group		*Bank*	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
At fair value	**RM'000**	RM'000	**RM'000**	RM'000
Money market instruments:				
Malaysian Government treasury bills	**-**	29,202	**-**	29,202
Bank Negara Malaysia bills and notes	**-**	56,871	**-**	56,871
Bank Negara Malaysia Islamic bills	**-**	652,556	**-**	652,556
Malaysian Government securities	**1,482,060**	1,788,709	**1,482,060**	1,788,709
Malaysian Government Islamic bonds	**3,353,160**	3,948,055	**2,037,145**	2,731,404
Bank Negara Malaysia Islamic bonds	**-**	35,627	**-**	35,627
Cagamas bonds and notes	**204,966**	45,320	**204,966**	45,320
Negotiable instruments of deposit	**584,868**	85,003	**559,877**	60,002
Bankers' acceptance and Islamic accepted bills	**857,169**	887,604	**857,169**	863,973
	6,482,223	7,528,947	**5,141,217**	6,263,664
Unquoted securities:				
Shares*	**16,907**	16,907	**16,907**	16,907
Private and Islamic debt securities	**471**	471	**471**	471
	17,378	17,378	**17,378**	17,378
	6,499,601	7,546,325	**5,158,595**	6,281,042

*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	**3,001,459**	2,142,323	**2,427,608**	1,838,418
More than one year to three years	**1,367,338**	2,976,974	**1,062,631**	2,645,173
More than three years to five years	**1,951,855**	1,640,606	**1,509,191**	1,495,194
Over five years	**161,571**	769,044	**141,787**	284,879
	6,482,223	7,528,947	**5,141,217**	6,263,664

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Loans, Advances and Financing

(i) By type

	Group		Bank	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
At amortised cost	**RM'000**	RM'000	**RM'000**	RM'000
Overdrafts	**1,369,460**	1,282,760	**1,279,184**	1,220,023
Term loans/ financing:				
Housing loans/ financing	**16,042,710**	14,599,644	**13,382,715**	12,504,747
Syndicated term loans/ financing	**45,077**	67,372	**45,077**	67,372
Factoring receivables	**160,206**	157,134	**160,206**	157,134
Hire purchase receivables	**252,743**	269,701	**183**	184
Lease receivables	**2,442**	2,777	**-**	-
Other term loans/ financing^	**13,014,906**	12,364,276	**8,155,998**	7,741,682
Bills receivable	**3,499,558**	3,294,693	**3,499,558**	3,294,693
Trust receipts	**1,704,541**	1,229,690	**1,649,502**	1,180,473
Claims on customers under acceptance credits	**2,640,571**	2,987,963	**1,979,888**	2,126,056
Staff loans/ financing	**311,218**	401,676	**264,703**	360,603
Credit/ charge cards	**2,849,038**	2,884,343	**2,378,204**	2,441,572
Revolving credit	**3,459,069**	3,420,408	**3,220,720**	3,208,787
Other loans/ financing	**8,793**	9,880	**8,793**	9,880
Gross loans, advances and financing	**45,360,332**	42,972,317	**36,024,731**	34,313,206
Less: Allowances for impaired loans, advances and financing				
- Collectively assessed	**(382,316)**	(401,441)	**(263,026)**	(256,588)
- Individually assessed	**(318,112)**	(304,981)	**(276,975)**	(274,602)
Total net loans, advances and financing	**44,659,904**	42,265,895	**35,484,730**	33,782,016

^ Included in the loans, advances and financing of the Bank at 31 December 2013 is a Restricted Profit Sharing Investment Account ("RPSIA") balance amounting to RM629.76m (2012: RM632.12m). The balance of RM629.76m residing under other term loans/financing is fully performing, and no allowance for impaired loans, advances and financing is recognised on it.

The RPSIA arrangement is with the Bank's fully owned subsidiary, HSBC Amanah Malaysia Berhad ("HBMS"), and the contract is based on the Mudharabah principle where the Bank (as the investor) solely provides capital, whilst the assets are managed by HBMS (as the agent). The profits of the underlying assets are shared based on pre-agreed ratios, whilst risks on the financing are borne by the Bank. Hence, the underlying assets and allowances for impairment arising thereon, if any, are recognised and accounted for by the Bank. The recognition and derecognition treatment is in accordance to Note 3(g) on financial instruments.

The accounts under the RPSIA are classified as "Assets Under Management" in the books of HBMS.

(ii) By type of customer

	Group		Bank	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000 Restated	**RM'000**	RM'000
Domestic non-bank financial institutions	**400,323**	400,180	**71,300**	93,237
Domestic business enterprises:				
Small medium enterprises	**8,487,088**	8,239,265	**6,773,868**	6,526,613
Others	**10,293,570**	10,092,551	**8,026,000**	7,980,962
Government and statutory bodies	**19,190**	20,193	**-**	-
Individuals	**21,096,135**	20,276,460	**16,596,000**	16,238,628
Other domestic entities	**7,803**	8,306	**6,081**	6,658
Foreign entities	**5,056,223**	3,935,362	**4,551,482**	3,467,108
	45,360,332	42,972,317	**36,024,731**	34,313,206

(iii) By residual contractual maturity

	Group		Bank	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Maturity within one year	**19,491,559**	18,771,716	**15,669,765**	15,002,564
More than one year to three years	**2,342,115**	1,865,327	**1,770,767**	1,239,273
More than three years to five years	**2,316,503**	2,522,173	**1,650,358**	1,757,069
More than five years	**21,210,155**	19,813,101	**16,933,841**	16,314,300
	45,360,332	42,972,317	**36,024,731**	34,313,206

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Loans, Advances and Financing (Cont'd)

(iv) By interest/ profit rate sensitivity

	Group		*Bank*	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Fixed rate:				
Housing loans/ financing	**143,971**	163,075	**134,983**	152,748
Hire purchase receivables	**252,743**	269,701	**183**	184
Other fixed rate loans/ financing	**3,868,536**	4,628,448	**2,061,327**	2,267,770
Variable rate:				
BLR/BFR plus	**35,025,323**	31,817,963	**28,229,313**	26,242,145
Cost-plus	**3,220,721**	3,208,787	**3,220,721**	3,208,787
Other variable rates	**2,849,038**	2,884,343	**2,378,204**	2,441,572
	45,360,332	42,972,317	**36,024,731**	34,313,206

(v) By sector

	Group		*Bank*	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
		Restated		Restated
Agricultural, hunting, forestry and fishing	**1,633,395**	2,221,670	**1,266,036**	1,659,225
Mining and quarrying	**452,303**	474,355	**348,615**	323,128
Manufacturing	**6,365,423**	6,291,892	**5,246,909**	5,129,046
Electricity, gas and water	**124,127**	130,039	**33,559**	29,194
Construction	**2,509,216**	1,634,788	**1,844,232**	1,368,358
Real estate	**1,776,310**	1,927,200	**1,521,834**	1,368,558
Wholesale & retail trade and restaurants & hotels	**2,773,077**	3,013,913	**2,115,250**	2,408,150
Transport, storage and communication	**388,873**	536,123	**114,614**	230,743
Finance, insurance and business services	**2,782,322**	2,128,551	**2,206,259**	1,894,162
Household-retail	**23,530,114**	22,047,654	**18,530,442**	17,690,716
Others	**3,025,172**	2,566,132	**2,796,981**	2,211,926
	45,360,332	42,972,317	**36,024,731**	34,313,206

(vi) By purpose

	Group		*Bank*	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Purchase of landed property:				
Residential	**16,182,395**	14,820,899	**13,673,133**	12,854,809
Non residential	**1,396,926**	1,304,992	**1,106,459**	1,230,965
Purchase of securities	**8,279**	11,835	**8,279**	11,835
Purchase of transport vehicles	**38,328**	40,029	**36,794**	38,542
Purchase of fixed assets excluding land & building	**20,199**	49,562	**-**	-
Consumption credit	**6,643,061**	6,744,514	**4,371,941**	4,357,008
Construction	**2,509,216**	1,634,788	**1,844,232**	1,368,358
Working capital	**15,909,437**	16,172,666	**12,357,518**	12,429,646
Other purpose	**2,652,491**	2,193,032	**2,626,375**	2,022,043
	45,360,332	42,972,317	**36,024,731**	34,313,206

(vii) By geographical distribution

	Group		*Bank*	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Northern Region	**7,291,747**	7,254,377	**5,888,394**	5,611,567
Southern Region	**6,376,203**	5,727,967	**4,962,327**	4,406,325
Central Region	**27,029,963**	24,484,496	**21,033,874**	19,401,739
Eastern Region	**4,662,419**	5,505,477	**4,140,136**	4,893,575
	45,360,332	42,972,317	**36,024,731**	34,313,206

The Northern region consists of the states of Perlis, Kedah, Penang, Perak, Pahang, Kelantan and Terengganu.
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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11 Impaired Loans, Advances and Financing

(i) Movements in impaired loans, advances and financing

	Group		*Bank*	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
At beginning of year	**778,846**	741,406	**649,428**	615,718
Classified as impaired during the year	**1,054,807**	928,022	**793,055**	697,321
Reclassified as performing	**(510,999)**	(294,200)	**(425,654)**	(270,485)
Amount recovered	**(311,818)**	(313,491)	**(264,503)**	(248,137)
Amount written off	**(314,999)**	(298,767)	**(195,002)**	(182,281)
Other movements	**96,528**	15,876	**68,135**	37,292
At end of year	**792,365**	778,846	**625,459**	649,428
Less: Individual allowance for impairment	**(318,112)**	(304,981)	**(276,975)**	(274,602)
Collective allowance for impairment (impaired portion)	**(86,829)**	(108,362)	**(43,189)**	(51,236)
Net impaired loans, advances and financing	**387,424**	365,503	**305,295**	323,590

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

	Group		*Bank*	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
Collective allowance for impairment	**RM'000**	RM'000	**RM'000**	RM'000
At beginning of year	**401,441**	376,282	**256,588**	271,097
Made during the year	**367,233**	331,860	**209,273**	171,940
Amount released	**(136,546)**	(51,111)	**(69,637)**	(44,467)
Amount written off	**(249,858)**	(254,581)	**(134,005)**	(143,625)
Discount unwind	**46**	(1,009)	**807**	(1,027)
Other movements	**-**	-	**-**	2,670
At end of year	**382,316**	401,441	**263,026**	256,588

	Group		*Bank*	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
Individual allowance for impairment	**RM'000**	RM'000	**RM'000**	RM'000
At beginning of year	**304,981**	286,008	**274,602**	253,025
Made during the year	**140,798**	87,608	**98,374**	55,520
Amount released	**(92,679)**	(58,868)	**(55,856)**	(40,815)
Amount written off	**(56,778)**	(28,241)	**(52,073)**	(26,871)
Discount unwind	**(1,593)**	(1,997)	**(1,164)**	(1,414)
Other movements	**23,383**	20,471	**13,092**	35,157
At end of year	**318,112**	304,981	**276,975**	274,602

(iii) By sector

	Group		*Bank*	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Agricultural, hunting, forestry and fishing	**471**	1,503	**471**	1,419
Mining and quarrying	**163**	1	**163**	1
Manufacturing	**107,137**	111,307	**100,702**	103,713
Construction	**55,318**	3,391	**52,863**	3,391
Real estate	**-**	16,222	**-**	16,222
Wholesale & retail trade, restaurants & hotels	**62,047**	56,390	**59,146**	49,477
Transport, storage and communication	**1,767**	6,510	**807**	5,681
Finance, insurance and business services	**1,945**	730	**1,525**	310
Household-Retail	**561,751**	581,272	**408,207**	467,694
Others	**1,766**	1,520	**1,575**	1,520
	792,365	778,846	**625,459**	649,428

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

(iv) By purpose

	Group		*Bank*	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Purchase of landed property:				
Residential	**329,546**	303,912	**263,846**	258,473
Non residential	**21,615**	39,053	**21,513**	38,945
Purchase of securities	**1**	-	**1**	-
Purchase of transport vehicles	**403**	157	**334**	97
Consumption credit	**217,890**	264,825	**130,115**	196,746
Construction	**55,318**	3,391	**52,863**	3,391
Working capital	**166,879**	166,822	**156,787**	151,776
Other purpose	**713**	686	**-**	-
	792,365	778,846	**625,459**	649,428

(v) By geographical distribution

	Group		*Bank*	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Northern Region	**168,164**	174,650	**129,556**	138,019
Southern Region	**166,026**	215,342	**139,817**	185,236
Central Region	**398,485**	305,716	**301,703**	248,679
Eastern Region	**59,690**	83,138	**54,383**	77,494
	792,365	778,846	**625,459**	649,428

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

12 Other Assets

	Group		Bank	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
		Restated		Restated
Interest/ income receivable	**113,990**	120,093	**98,036**	106,624
Other receivables, deposits and prepayments	**647,696**	181,112	**640,868**	172,804
	761,686	301,205	**738,904**	279,428

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 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Unquoted shares, at cost - in Malaysia	**-**	-	**660,021**	660,021

The subsidiary companies of the Bank are as follows:

Name	*Percentage of equity held*	
	31 Dec 2013	31 Dec 2012
HSBC (Kuala Lumpur) Nominees Sdn Bhd*	**100%**	100%
HSBC Nominees (Tempatan) Sdn Bhd*	**100%**	100%
HSBC Nominees (Asing) Sdn Bhd*	**100%**	100%
HSBC Amanah Malaysia Berhad*	**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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Property and Equipment

	Group									
2013	*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	**101,058**	**15,577**	**4,674**	**122,342**	**11,163**	**3,526**	**234,492**	**161,947**	**3,003**	**657,782**
Additions	**-**	**-**	**-**	**1,019**	**-**	**-**	**14,204**	**4,149**	**1,162**	**20,534**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**(161)**	**(1,591)**	**(1,227)**	**(2,979)**
Written off	**-**	**-**	**-**	**-**	**-**	**-**	**(12,199)**	**(50,095)**	**(55)**	**(62,349)**
Reclassification/other movements	**-**	**-**	**-**	**-**	**-**	**-**	**154**	**(154)**	**-**	**-**
Adjustments for revaluation	**3,160**	**140**	**-**	**(1,019)**	**-**	**-**	**-**	**-**	**-**	**2,281**
Balance as at 31 December	**104,218**	**15,717**	**4,674**	**122,342**	**11,163**	**3,526**	**236,490**	**114,256**	**2,883**	**615,269**
Representing items at:										
Cost	**-**	**-**	**-**	**-**	**-**	**-**	**236,490**	**114,256**	**2,883**	**353,629**
Valuation - 2013	**104,218**	**15,717**	**4,674**	**122,342**	**11,163**	**3,526**	**-**	**-**	**-**	**261,640**
	104,218	**15,717**	**4,674**	**122,342**	**11,163**	**3,526**	**236,490**	**114,256**	**2,883**	**615,269**
Accumulated depreciation										
Balance as at 1 January	**-**	**-**	**-**	**-**	**-**	**-**	**158,984**	**127,935**	**1,669**	**288,588**
Charge for the year	**-**	**434**	**114**	**3,046**	**292**	**86**	**23,275**	**12,465**	**547**	**40,259**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**(160)**	**(1,591)**	**(1,103)**	**(2,854)**
Written off	**-**	**-**	**-**	**-**	**-**	**-**	**(11,649)**	**(50,095)**	**(55)**	**(61,799)**
Reclassification/other movements	**-**	**-**	**-**	**-**	**-**	**-**	**6**	**(6)**	**-**	**-**
Adjustments for revaluation	**-**	**(434)**	**(114)**	**(3,046)**	**(292)**	**(86)**	**-**	**-**	**-**	**(3,972)**
Balance as at 31 December	**-**	**-**	**-**	**-**	**-**	**-**	**170,456**	**88,708**	**1,058**	**260,222**
Net book value at 31 December	**104,218**	**15,717**	**4,674**	**122,342**	**11,163**	**3,526**	**66,034**	**25,548**	**1,825**	**355,047**

The land and buildings of the Group and the Bank were revalued on the open market value basis as of 31 December 2013 based on professional valuations.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Property and Equipment (Cont'd)

	Group									
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	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)
Downwards revaluation	-	-	-	-	-	-	-	-	-	-
Net transfers to/from subsidiary	-	-	-	-	-	-	-	-	-	-
Adjustments for revaluation	10,830	672	240	8,306	(10)	(40)	-	-	-	19,998
Balance at 31 December	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	-	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)
Net transfers to/from subsidiary	-	-	-	-	-	-	-	-	-	-
Adjustments for revaluation	-	(402)	(106)	(2,606)	(285)	(85)	-	-	-	(3,484)
Balance at 31 December	-	-	-	-	-	-	158,984	127,935	1,669	288,588
Net book value at 31 December	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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Property and Equipment (Cont'd)

	Bank									
2013	*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	**101,058**	**15,577**	**4,674**	**122,342**	**11,163**	**3,526**	**205,869**	**144,714**	**2,782**	**611,705**
Additions	**-**	**-**	**-**	**1,019**	**-**	**-**	**9,063**	**4,051**	**1,162**	**15,295**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**(161)**	**(1,578)**	**(1,227)**	**(2,966)**
Written off	**-**	**-**	**-**	**-**	**-**	**-**	**(12,138)**	**(50,091)**	**(55)**	**(62,284)**
Reclassification	**-**	**-**	**-**	**-**	**-**	**-**	**85**	**(85)**	**-**	**-**
Net transfers from subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**(4)**	**85**	**-**	**81**
Adjustments for revaluation	**3,160**	**140**	**-**	**(1,019)**	**-**	**-**	**-**	**-**	**-**	**2,281**
Balance as at 31 December	**104,218**	**15,717**	**4,674**	**122,342**	**11,163**	**3,526**	**202,714**	**97,096**	**2,662**	**564,112**
Representing items at:										
Cost	**-**	**-**	**-**	**-**	**-**	**-**	**202,714**	**97,096**	**2,662**	**302,472**
Valuation - 2013	**104,218**	**15,717**	**4,674**	**122,342**	**11,163**	**3,526**	**-**	**-**	**-**	**261,640**
	104,218	**15,717**	**4,674**	**122,342**	**11,163**	**3,526**	**202,714**	**97,096**	**2,662**	**564,112**
Accumulated depreciation										
Balance as at 1 January	**-**	**-**	**-**	**-**	**-**	**-**	**146,968**	**121,794**	**1,588**	**270,350**
Charge for the year	**-**	**434**	**114**	**3,046**	**292**	**86**	**16,416**	**9,176**	**503**	**30,067**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**(160)**	**(1,578)**	**(1,103)**	**(2,841)**
Written off	**-**	**-**	**-**	**-**	**-**	**-**	**(11,601)**	**(50,091)**	**(55)**	**(61,747)**
Reclassification	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**(3)**	**-**	**-**
Net transfers from subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**(2)**	**3**	**-**	**1**
Adjustments for revaluation	**-**	**(434)**	**(114)**	**(3,046)**	**(292)**	**(86)**	**-**	**-**	**-**	**(3,972)**
Balance as at 31 December	**-**	**-**	**-**	**-**	**-**	**-**	**151,624**	**79,301**	**933**	**231,858**
Net book value at 31 December	**104,218**	**15,717**	**4,674**	**122,342**	**11,163**	**3,526**	**51,090**	**17,795**	**1,729**	**332,254**

The land and buildings of the Bank were revalued on the open market value basis as of 31 December 2013 based on professional valuations.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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)
Downwards revaluation	-	-	-	-	-	-	-	-	-	-
Net transfers to subsidiary	-	-	-	-	-	-	-	(143)	-	(143)
Adjustments for revaluation	10,830	672	240	8,306	(10)	(40)	-	-	-	19,998
Balance at 31 December	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	-	-	-	-	-	-	146,968	121,794	1,588	270,350
Net book value at 31 December	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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Intangible Assets

	Group	*Bank*
	Computer software	
2013	**RM'000**	**RM'000**
Cost		
Balance at 1 January	**204,702**	**199,610**
Additions	**24,733**	**24,732**
Written off	**(10,747)**	**(10,747)**
Balance at 31 December	**218,688**	**213,595**
Accumulated depreciation		
Balance at 1 January	**151,177**	**146,114**
Charge for the year	**22,263**	**22,242**
Impairment of intangible assets charged to income statement	**643**	**643**
Written off	**(10,747)**	**(10,747)**
At 31 December	**163,336**	**158,252**
Accumulated depreciation	***157,526***	***152,442***
Accumulated impairment loss	***5,810***	***5,810***
Net book value at 31 December	**55,352**	**55,343**
2012	RM'000	RM'000
Cost		
Balance at 1 January	183,560	178,486
Additions	22,341	22,323
Written off	(1,199)	(1,199)
Balance at 31 December	204,702	199,610
Accumulated depreciation		
Balance at 1 January	130,297	125,684
Charge for the year	22,079	21,629
Written off	(1,199)	(1,199)
At 31 December	151,177	146,114
Accumulated depreciation	*146,010*	*140,947*
Accumulated impairment loss	*5,167*	*5,167*
Net book value at 31 December	53,525	53,496

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 Deferred Tax Assets

The amounts, prior to offsetting are summarised as follows:

	Group		*Bank*	
	31 Dec 2013 RM'000	31 Dec 2012 RM'000	**31 Dec 2013 RM'000**	31 Dec 2012 RM'000
Deferred tax assets	**133,155**	222,937	**124,114**	178,454
Deferred tax liabilities	**(46,179)**	(46,923)	**(44,231)**	(43,913)
	86,976	176,014	**79,883**	134,541

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*	
	31 Dec 2013 RM'000	31 Dec 2012 RM'000	**31 Dec 2013 RM'000**	31 Dec 2012 RM'000
Property and equipment				
Capital allowances	**(19,398)**	(19,649)	**(17,511)**	(16,856)
Revaluation	**(26,704)**	(21,592)	**(26,704)**	(21,592)
Available-for-sale reserve	**2,291**	(5,535)	**304**	(5,357)
Cash flow hedge reserve	**(16)**	(108)	**(16)**	(108)
Allowances				
Collective impairment allowance	**1,536**	99,242	**1,520**	64,148
Others	**129,329**	118,779	**122,290**	109,390
Lease receivables	**(62)**	(39)	**-**	-
Share based payments	**-**	4,916	**-**	4,916
	86,976	176,014	**79,883**	134,541

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 Deferred Tax Assets (Cont'd)

Movement in temporary differences during the year

	Group							
	As at 01-Jan-12	*Recognised in retained earnings*	*Recognised in income statement*	*Recognised in other comprehensive income*	***As at 31-Dec-12 / 01-Jan-13***	***Recognised in income statement***	***Recognised in other comprehensive income***	***As at 31-Dec-13***
	RM'000	RM'000	RM'000	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Property and equipment								
- capital allowances	(20,510)	-	861	-	**(19,649)**	**251**	**-**	**(19,398)**
- revaluation	(18,950)	-	511	(3,153)	**(21,592)**	**595**	**(5,707)**	**(26,704)**
Available-for-sale reserve	(3,636)	-	-	(1,899)	**(5,535)**	**-**	**7,826**	**2,291**
Cash flow hedge reserve	(285)	-	-	177	**(108)**	**-**	**92**	**(16)**
Allowances								
- collective impairment allowance	92,907	-	6,335	-	**99,242**	**(97,706)**	**-**	**1,536**
- others	113,269	(1,340)	6,850	-	**118,779**	**10,550**	**-**	**129,329**
Lease receivables	(166)	-	127	-	**(39)**	**(23)**	**-**	**(62)**
Share based payments	5,637	-	(721)	-	**4,916**	**(4,916)**	**-**	**-**
	168,266	(1,340)	13,963	(4,875)	**176,014**	**(91,249)**	**2,211**	**86,976**

	Bank							
	As at 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 / 01-Jan-13***	***Recognised in income statement***	***Recognised in other comprehensive income***	***As at 31-Dec-13***
	RM'000		RM'000	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Property and equipment								
- capital allowances	(18,510)	-	1,654	-	**(16,856)**	**(655)**	**-**	**(17,511)**
- revaluation	(18,950)	-	511	(3,153)	**(21,592)**	**595**	**(5,707)**	**(26,704)**
Available-for-sale reserve	(3,587)	-	-	(1,770)	**(5,357)**	**-**	**5,661**	**304**
Cash flow hedge reserve	(285)	-	-	177	**(108)**	**-**	**92**	**(16)**
Allowances								
- collective impairment allowance	67,774	668	(4,294)	-	**64,148**	**(62,628)**	**-**	**1,520**
- others	106,664	-	2,726	-	**109,390**	**12,900**	**-**	**122,290**
Lease receivables	(151)	-	151	-	**-**	**-**	**-**	**-**
Share based payments	5,637	-	(721)	-	**4,916**	**(4,916)**	**-**	**-**
	138,592	668	27	(4,746)	**134,541**	**(54,704)**	**46**	**79,883**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Deposits from Customers

(i) By type of deposit

	Group		Bank	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Demand deposits	**16,281,709**	14,911,616	**15,030,335**	14,113,743
Savings deposits	**11,795,447**	10,293,923	**10,566,897**	9,351,051
Fixed / Investment deposits	**25,947,729**	26,029,899	**19,395,419**	20,583,641
Islamic repurchase agreements	**152,660**	223,467	**-**	-
Negotiable instruments of deposit	**1,719,359**	3,009,648	**1,181,951**	2,929,214
Wholesale money market deposits	**979,445**	1,384,134	**979,445**	1,384,134
Structured investments	**3,038,070**	4,085,359	**1,729,829**	2,936,475
	59,914,419	59,938,046	**48,883,876**	51,298,258

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

	Group 31 Dec 2013	Group 31 Dec 2012	Bank 31 Dec 2013	Bank 31 Dec 2012
Due within six months	**21,126,243**	21,514,495	**15,399,451**	16,816,872
More than six months to one year	**5,281,421**	5,948,484	**4,372,052**	5,239,020
More than one year to three years	**323,652**	1,183,800	**231,633**	1,125,089
More than three years to five years	**931,858**	392,768	**570,320**	331,874
Over five years	**3,914**	-	**3,914**	-
	27,667,088	29,039,547	**20,577,370**	23,512,855

(ii) By type of customer

	Group		Bank	
Government and statutory bodies	**124,171**	124,902	**36,960**	37,905
Business enterprises	**19,230,475**	21,414,070	**17,300,476**	19,360,238
Individuals	**29,662,946**	27,451,677	**22,624,464**	22,199,416
Others	**10,896,827**	10,947,397	**8,921,976**	9,700,699
	59,914,419	59,938,046	**48,883,876**	51,298,258

20 Deposits and Placements from Banks and Other Financial Institutions

	Group		Bank	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
		Restated		Restated
Licensed banks	**-**	100,000	**-**	-
Bank Negara Malaysia	**155,953**	56,886	**129,138**	47,111
Other financial institutions	**8,141,875**	6,227,005	**8,141,741**	6,227,005
	8,297,828	6,383,891	**8,270,879**	6,274,116

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

21 Other Liabilities

	Group		*Bank*	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
		Restated		Restated
Interest/ profit payable	**219,767**	219,840	**168,674**	177,925
Allowance for commitments and contingencies	**13,936**	-	**13,936**	-
Profit equalisation reserve	**1,290**	1,340	**-**	-
Other creditors and accruals	**1,401,302**	1,376,453	**1,463,933**	1,388,663
	1,636,295	1,597,633	**1,646,543**	1,566,588

Movement in allowance for commitments and contingencies is as follows:

	Group		*Bank*	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
At the beginning of year	**-**	-	**-**	-
Allowance made during the year	**13,936**	-	**13,936**	-
Other movements	**-**	-	**-**	-
At the end of year	**13,936**	-	**13,936**	-

22 Multi-Currency Sukuk Programme

	Group	
	31 Dec 2013	31 Dec 2012
	RM'000	RM'000
Multi-Currency Sukuk Programme ('MCSP')	**500,000**	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 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 accrual basis.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

23 Subordinated Bonds

	Group		*Bank*	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Subordinated bonds, at par	**1,000,000**	1,000,000	**1,000,000**	1,000,000
Fair value changes arising from fair value hedge	**5,071**	12,591	**5,071**	12,591
	1,005,071	1,012,591	**1,005,071**	1,012,591

(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 320 million.

The first tranche 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 tranche 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. Under the revised Capital Adequacy Framework (Capital Components), the par value of the subordinated bonds are amortised on a straight line basis, with 10% of the par value phased out each year, with effect from 2013 for regulatory capital base purposes.

24 Share Capital

	Group		*Bank*	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Authorised				
1 billion ordinary shares of RM0.50 each	**500,000**	500,000	**500,000**	500,000
1 billion preference shares of RM0.50 each	**500,000**	500,000	**500,000**	500,000
	1,000,000	1,000,000	**1,000,000**	1,000,000
Issued and Fully Paid				
229 million ordinary shares of RM0.50 each	**114,500**	114,500	**114,500**	114,500

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

25 Reserves

	Group		Bank	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Share premium	**741,375**	741,375	**741,375**	741,375
Statutory reserve	**164,500**	164,500	**114,500**	114,500
Revaluation reserve	**166,049**	167,322	**166,049**	167,322
Capital redemption reserve	**190,000**	190,000	**190,000**	190,000
Cash flow hedge reserve	**48**	324	**48**	324
Available-for-sale reserve	**(6,871)**	16,602	**(911)**	16,068
Capital contribution reserve	**95,470**	90,923	**94,178**	89,760
Retained profits (exclude proposed dividends)	**4,674,062**	4,106,664	**4,202,012**	3,778,581
	6,024,633	5,477,710	**5,507,251**	5,097,930

The statutory reserve is maintained in compliance with Section 12 of the Financial Services Act 2013 (FSA) for the Bank and Section 12 of the Islamic Financial Services Act 2013 (IFSA) for its Islamic subsidiary respectively, and is not distributable as cash dividends.

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

The Malaysian Finance Act 2007 introduced the single tier tax system with effect from 1 January 2008. Under this system, tax on a company's profits is a final tax and dividends are tax exempt in the hands of shareholders. Upon expiry of the transitional period on 31 December 2013, all remaining Section 108 balances of the Bank are disregarded. The Bank is no longer required to deduct tax at source from dividends distributed to shareholders.

26 Net Interest Income

	Group		Bank	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Interest income		Restated		Restated
Loans and advances				
- Interest income other than from impaired loans	**1,587,747**	1,596,721	**1,587,747**	1,596,721
- Interest income recognised from impaired loans	**38,168**	49,920	**38,168**	49,920
Money at call and deposit placements with financial institutions	**473,563**	446,020	**510,121**	505,360
Financial investments available-for-sale	**186,246**	157,875	**186,246**	157,875
	2,285,724	2,250,536	**2,322,282**	2,309,876
Interest expense				
Deposits and placements of banks and other financial institutions	**(65,294)**	(65,614)	**(65,294)**	(65,614)
Deposits from customers	**(761,935)**	(806,648)	**(761,935)**	(806,648)
Subordinated bonds	**(43,570)**	(43,111)	**(43,570)**	(43,111)
Others	**(11,836)**	(7,839)	**(11,836)**	(7,839)
	(882,635)	(923,212)	**(882,635)**	(923,212)
Net interest income	**1,403,089**	1,327,324	**1,439,647**	1,386,664

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27 Net Fee and Commission Income

	Group		Bank	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Fee and commission income				
Credit cards	**177,184**	172,999	**177,184**	172,999
Service charges and fees	**164,888**	170,189	**164,888**	170,189
Fees on credit facilities	**34,405**	33,899	**34,405**	33,899
Agency fee	**62,989**	83,178	**62,989**	83,178
Others	**52,401**	58,348	**52,431**	58,378
	491,867	518,613	**491,897**	518,643
Fee and commission expense				
Interbank and clearing fees	**(1,209)**	(1,228)	**(1,209)**	(1,228)
Brokerage	**(3,147)**	(3,132)	**(3,147)**	(3,132)
Others	**(34,087)**	(26,541)	**(34,087)**	(26,541)
	(38,443)	(30,901)	**(38,443)**	(30,901)
Net fee and commission income	**453,424**	487,712	**453,454**	487,742

28 Net Trading Income

	Group		Bank	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
		Restated		Restated
Realised gains on financial assets/liabilities held-for-trading and other financial instruments	**62,122**	100,587	**62,122**	100,587
Net interest income/(expense) from financial assets held-for-trading	**15,794**	(2,463)	**15,794**	(2,463)
Net unrealised gains on revaluation of financial assets held-for-trading	**5,214**	4,691	**5,214**	4,691
Net realised gains arising from dealing in foreign currency	**397,027**	419,181	**407,034**	417,382
Net unrealised gains/(losses) from dealing in foreign currency	**16,863**	(13,167)	**16,863**	(13,167)
Net realised gains arising from dealing in derivatives	**44,738**	65,338	**45,127**	65,005
Net unrealised (losses)/gains on revaluation of derivatives	**(5,022)**	14,240	**(7,680)**	15,159
(Losses)/gains arising from fair value hedges	**(95)**	167	**(95)**	167
	536,641	588,574	**544,379**	587,361

29 Income from Islamic Banking operations

	Group	
	31 Dec 2013	31 Dec 2012
	RM'000	RM'000
Income derived from investment of depositor funds and others	**603,097**	622,437
Income derived from investment of shareholders funds	**126,609**	130,178
Income attributable to the depositors	**(219,837)**	(185,625)
	509,869	566,990

30 Other Operating Income

	Group		Bank	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Disposal of financial investments available-for-sale	**11,309**	2,597	**11,309**	2,597
Dividend income from financial investments available-for-sale				
- Unquoted in Malaysia	**1,175**	2,009	**1,175**	2,009
Rental income	**7,145**	6,874	**7,145**	6,874
Net gains/(losses) on disposal of property and equipment	**456**	(11)	**456**	(11)
Net upwards revaluation on property	**20**	39	**20**	39
Other operating income	**19,660**	25,936	**146,005**	131,853
	39,765	37,444	**166,110**	143,361

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Loans/ Financing Impairment Charges and other Credit Risk Provisions

	Group		Bank	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Impairment charges on loans and financing:				
(a) Individual impairment				
Made during the year	**140,798**	87,608	**98,374**	55,520
Written back	**(92,679)**	(58,868)	**(55,856)**	(40,815)
(b) Collective impairment				
Made during the year	**367,233**	331,860	**209,273**	171,940
Written back	**(136,546)**	(51,111)	**(69,637)**	(44,467)
Impaired loans and financing				
Recovered during the year	**(102,815)**	(106,711)	**(71,732)**	(80,399)
Written off	**15,351**	12,989	**12,607**	11,978
Impairment charges on other credit related items				
Made during the year	**13,721**	-	**13,721**	-
	205,063	215,767	**136,750**	73,757

32 Other Operating Expenses

	Group		Bank	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
		Restated		Restated
Personnel expenses	**595,974**	594,621	**563,874**	566,147
Promotion and marketing related expenses	**81,789**	73,376	**64,252**	57,294
Establishment related expenses	**153,677**	156,295	**130,736**	136,319
General administrative expenses	**393,464**	395,003	**382,814**	363,799
	1,224,904	1,219,295	**1,141,676**	1,123,559

The above expenditure includes the following major items :

	Group		Bank	
Personnel expenses				
Salaries, allowances and bonuses	**463,790**	462,717	**433,973**	434,569
Employees Provident Fund contributions	**76,985**	75,285	**72,673**	70,866
Restructuring costs	**5,689**	-	**5,689**	-
Promotion and marketing related expenses				
Advertising and promotion	**59,406**	48,737	**44,472**	38,822
Establishment related expenses				
Depreciation of property and equipment	**40,259**	40,973	**30,067**	33,063
Amortisation of intangible assets	**22,263**	22,079	**22,242**	21,629
Impairment of intangibles	**643**	**-**	**643**	**-**
Information technology costs	**13,235**	14,801	**11,326**	13,618
Hire of equipment	**10,593**	9,942	**10,564**	9,888
Rental of premises	**37,418**	40,013	**29,491**	32,684
Property and equipment written off	**550**	717	**537**	716
General administrative expenses				
Intercompany expenses	**239,520**	226,349	**246,869**	219,554
Auditors' remuneration				
Statutory audit fees				
KPMG Malaysia	**505**	505	**385**	395
Other services				
KPMG Malaysia	**500**	480	**350**	345

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 Income tax expense

	Group		*Bank*	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Malaysian income tax				
- Current year	**395,980**	408,575	**352,800**	359,101
- Prior years	**(94,252)**	(22,977)	**(58,210)**	(19,370)
Total current tax recognised in profit or loss	**301,728**	385,598	**294,590**	339,731
Deferred tax				
Origination and reversal of temporary differences				
- Current year	**(11,465)**	(13,963)	**(12,835)**	(27)
- Over provision in prior years	**102,714**	-	**67,539**	-
Total deferred tax recognised in profit or loss	**91,249**	(13,963)	**54,704**	(27)
Total income tax expense	**392,977**	371,635	**349,294**	339,704

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

	Group		*Bank*	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Profit before income tax	**1,512,178**	1,572,982	**1,324,521**	1,407,812
Income tax using Malaysian tax rates (25%)	**378,044**	393,246	**331,130**	351,953
Non-deductible expenses	**11,340**	9,427	**9,010**	7,616
Tax exempt income	**(4,869)**	(8,061)	**(175)**	(495)
Underprovision/(overprovision) in respect of prior years	**8,462**	(22,977)	**9,329**	(19,370)
Income tax expense	**392,977**	371,635	**349,294**	339,704

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 (2012: 229,000,000) ordinary shares of RM0.50 each in issue during the year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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			
	2013		2012	
	Parent companies	***Other related companies***	*Parent companies*	*Other related companies*
	RM'000	**RM'000**	RM'000	RM'000
Income				
Interest/profit on intercompany placements	**2,495**	**2,641**	7,880	5,023
Interest/profit on current accounts	**-**	**147**	-	46
Fees and commission	**10,352**	**36,288**	15,507	43,009
Other income	**2,659**	**14,386**	3,314	16,712
	15,506	**53,462**	26,701	64,790
Expenditure				
Interest/profit on intercompany deposits	**22,462**	**9,739**	40,396	8,911
Interest/profit on current accounts	**-**	**565**	-	134
Fees and commission	**1,136**	**6,351**	1,418	6,513
Operating expenses	**228,111**	**34,544**	194,337	52,774
	251,709	**51,199**	236,151	68,332
Amount due from				
Intercompany placements	**423,538**	**212**	110,825	403,835
Current account balances	**48,918**	**653,998**	148,205	1,293,969
Other assets	**150,218**	**33,786**	4,475	60,311
	622,674	**687,996**	263,505	1,758,115
Amount due to				
Intercompany deposits	**3,680,604**	**515,787**	998,386	1,522,693
Current account balances	**512,860**	**281,589**	1,184,342	190,262
Other liabilities	**195,628**	**38,473**	164,755	24,787
	4,389,092	**835,849**	2,347,483	1,737,742

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	Bank			
	2013		2012	
	Parent companies	***Other related companies***	*Parent companies*	*Other related companies*
	RM'000	**RM'000**	RM'000	RM'000
Income				
Interest on intercompany placements	**2,495**	**39,199**	7,880	64,363
Interest on current accounts	**-**	**147**	-	46
Fees and commission	**5,754**	**21,841**	8,086	27,693
Other income	**2,659**	**140,731**	3,314	122,629
	10,908	**201,918**	19,280	214,731
Expenditure				
Interest on intercompany deposits	**22,462**	**8,201**	40,396	6,283
Interest on current accounts	**-**	**565**	-	134
Fees and commission	**1,134**	**6,204**	1,416	6,426
Operating expenses	**228,111**	**41,893**	194,337	45,980
	251,707	**56,863**	236,149	58,823
Amount due from				
Intercompany placements	**423,538**	**1,553,732**	110,825	2,057,376
Current account balances	**48,060**	**602,237**	146,215	1,241,146
Other assets	**150,218**	**34,136**	1,120	61,073
	621,816	**2,190,105**	258,160	3,359,595
Amount due to				
Intercompany deposits	**3,680,604**	**361,886**	998,386	1,397,508
Current account balances	**512,726**	**281,589**	1,184,342	190,262
Other liabilities	**195,628**	**187,565**	164,755	101,222
	4,388,958	**831,040**	2,347,483	1,688,992

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 2013 amount to RM166,929 (2012: RM55,105) and RM98,608 (2012: RM37,499) respectively.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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: -

2013

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)	3,750	453	106	-	4,309
Baldev Singh s/o Gurdial Singh	1,137	256	7	-	1,400
Executive Director of subsidiary companies					
Mohamed Rafe Bin Mohamed Haneef	2,069	259	18	-	2,346
Non Executive Directors of the Bank and subsidiary companies					
Tan Sri Dato' Sulaiman bin Sujak	-	-	-	128	128
Dato' Henry Sackville Barlow	-	-	-	131	131
Datuk Ramli bin Ibrahim	-	-	-	131	131
Ching Yew Chye	-	-	-	112	112
Datuk Shireen Ann Zaharah Muhiudeen*	-	-	-	8	8
Lee Choo Hock*	-	-	-	111	111
Mohamed Ross bin Mohd Din	-	-	-	103	103
Azlan bin Abdullah	-	-	-	90	90
Mohamed Ashraf Bin Mohamed Iqbal	-	-	-	93	93
	6,956	968	131	907	8,962

* Appointed on 5 December 2013

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

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

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	307	18	-	2,200
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
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	1,288	103	747	8,360

*Resigned 2 April 2012

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

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

2013

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)	**3,750**	**453**	**106**	**-**	**4,309**
Baldev Singh s/o Gurdial Singh	**1,137**	**256**	**7**	**-**	**1,400**
Non Executive Directors of the Bank					
Tan Sri Dato’ Sulaiman bin Sujak	**-**	**-**	**-**	**128**	**128**
Dato’ Henry Sackville Barlow	**-**	**-**	**-**	**131**	**131**
Datuk Ramli bin Ibrahim	**-**	**-**	**-**	**131**	**131**
Ching Yew Chye	**-**	**-**	**-**	**112**	**112**
Datuk Shireen Ann Zaharah Muhiudeen*	**-**	**-**	**-**	**8**	**8**
Lee Choo Hock*	**-**	**-**	**-**	**8**	**8**
	4,887	**709**	**113**	**518**	**6,227**

* Appointed on 5 December 2013

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
Ching Yew Chye	-	-	-	86	86
	4,347	981	85	403	5,816

*Resigned 2 April 2012

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36 Credit exposure to connected parties

	Group		Bank	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Aggregate value of outstanding credit exposures to connected parties	**1,727,298**	2,473,475	**1,518,053**	2,378,046
As a percentage of total credit exposures	**2.8%**	4.3%	**2.9%**	5.1%
Aggregate value of total outstanding credit exposures to connected parties which is impaired or in default	**-**	-	**-**	-
As a percentage of total credit exposures	**-**	-	**-**	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Capital Adequacy

	Group 31 Dec 2013 RM'000	31 Dec 2012 RM'000 Restated
Tier 1 capital		
Paid-up ordinary share capital	**114,500**	114,500
Share premium	**741,375**	741,375
Retained profits (including proposed dividend)	**4,974,062**	4,406,664
Other reserves	**638,066**	660,751
Regulatory adjustments	**(364,017)**	(461,750)
Total Common Equity Tier 1 (CET 1) and Tier 1 capital	**6,103,986**	5,461,540
Tier 2 capital		
Subordinated bonds	**900,000**	1,000,000
Collective impairment allowance (unimpaired portion)	**295,487**	293,079
Regulatory adjustments	**88,738**	86,742
Total Tier 2 capital	**1,284,225**	1,379,821
Capital base	**7,388,211**	6,841,361
Inclusive of proposed dividend		
CET 1 and Tier 1 Capital ratio	**11.893%**	11.323%
Total Capital ratio	**14.395%**	14.183%
Net of proposed dividend		
CET 1 and Tier 1 Capital ratio	**11.308%**	10.701%
Total Capital ratio	**13.811%**	13.561%

With effect from 1 January 2013, the total capital and capital adequacy ratios of the Bank have been computed based on the Standardised Approach in accordance with the revised Capital Adequacy Framework (Capital Components).

For HSBC Amanah Malaysia Berhad (a fully owned subsidiary of the Bank), the total capital and capital adequacy ratios have been computed in accordance with the revised Capital Adequacy Framework for Islamic Banks (CAFIB), with effect from 1 January 2013. HSBC Amanah Malaysia Berhad has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

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

	Group **31 Dec 2013**		31 Dec 2012	
	Principal RM'000	**Risk-weighted RM'000**	Principal RM'000	Risk-weighted RM'000
Total RWA for credit risk	**92,358,223** *	**43,621,505** *	88,356,581 *	41,396,781 *
Total RWA for market risk	**-**	**2,069,891**	-	1,628,155
Total RWA for operational risk	**-**	**5,632,809**	-	5,211,149
	92,358,223	**51,324,205**	88,356,581	48,236,085

The comparative capital adequacy ratios and components of capital base have been restated in accordance with the revised guidelines stated above. Refer to Note 47(iii) for comparative ratios and capital base prior to restatement.

∗ The principal and risk weighted amount for credit risk relating to the RPSIA (refer Note 10(i) for more details) is RM629.76m for both on 31 December 2013 (2012: RM632.12m).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Capital Adequacy (Cont'd)

	Bank	
	31 Dec 2013	31 Dec 2012
	RM'000	RM'000
		Restated
Tier 1 capital		
Paid-up ordinary share capital	**114,500**	114,500
Share premium	**741,375**	741,375
Retained profits (including proposed dividend)	**4,502,012**	4,078,581
Other reserves	**594,721**	608,877
Regulatory adjustments	**(358,901)**	(420,069)
Total Common Equity Tier 1 (CET1) and Tier 1 capital	**5,593,707**	5,123,264
Tier 2 capital		
Subordinated bonds	**900,000**	1,000,000
Collective impairment allowance (unimpaired portion)	**219,837**	205,352
Regulatory adjustments	**(571,283)**	(573,279)
Total Tier 2 capital	**548,554**	632,073
Capital base	**6,142,261**	5,755,337
<u>Inclusive of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	**12.961%**	12.745%
Total Capital ratio	**14.232%**	14.318%
<u>Net of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	**12.266%**	11.999%
Total Capital ratio	**13.537%**	13.571%

With effect from 1 January 2013, the total capital and capital adequacy ratios have been computed based on the Standardised Approach in accordance with the revised Capital Adequacy Framework (Capital Components).

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

	Bank			
	31 Dec 2013		31 Dec 2012	
	Principal	**Risk-weighted**	Principal	Risk-weighted
	RM'000	**RM'000**	RM'000	RM'000
Total RWA for credit risk	**78,044,530** *	**36,133,709** *	76,189,098 *	33,949,851 *
Total RWA for market risk	**-**	**1,991,640**	-	1,555,686
Total RWA for operational risk	**-**	**5,033,713**	-	4,691,534
	78,044,530	**43,159,062**	76,189,098	40,197,071

The comparative capital adequacy ratios and components of capital base have been restated in accordance with the revised guidelines stated above. Refer to Note 47(iii) for comparative ratios and capital base prior to restatement.

* The principal and risk weighted amount for credit risk relating to the RPSIA (refer Note 10(i) for more details) is RM629.76m for both on 31 December 2013 (2012: RM632.12m).

38 Commitments and Contingencies

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

31 December 2013	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	2,465,200	-	2,465,200	2,220,317
Transaction-related contingent items	5,492,236	-	2,746,118	2,125,241
Short-term self-liquidating trade-related contingencies	335,070	-	67,014	55,690
Irrevocable commitments to extend credit:				
- Maturity not exceeding one year	13,889,190	-	2,777,838	2,429,856
- Maturity exceeding one year	7,109,109	-	3,554,554	2,998,411
Unutilised credit card lines	7,498,000	-	1,499,600	1,124,700
Foreign exchange related contracts				
- Less than one year	40,404,219	486,910	1,110,031	583,573
- Over one year to less than five years	9,510,501	385,096	1,081,810	547,580
- Over five years	2,293,105	123,138	362,966	207,866
Interest/profit rate related contracts:				
- Less than one year	12,560,652	30,226	49,694	15,034
- Over one year to less than five years	31,948,817	189,767	975,652	333,899
- Over five years	3,731,860	70,429	344,401	128,387
Gold and other precious metals contracts				
- Less than one year	60,712	-	-	-
- Over one year to less than five years	-	-	-	-
Other commodity contracts:				
- Less than one year	-	-	-	-
- Over one year to less than five years	-	-	-	-
Equity related contracts				
- Less than one year	1,162,877	13,679	84,297	16,859
- Over one year to less than five years	1,399,288	20,214	134,176	26,835
- Over five years	140,538	685	14,739	2,948
	140,001,374	1,320,144	17,268,090	12,817,196

^ The foreign exchange and equity related contracts, interest/profit rate related contracts, gold and other precious metals 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 for the Bank were based on the guidelines of the revised Capital Adequacy Framework on the Standardised Approach. The credit conversion factors and risk weighting rules for HSBC Amanah Malaysia Berhad were based on the revised Basel II CAFIB.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 Commitments and Contingencies (Cont'd)

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

31 December 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
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

^ The foreign exchange and equity related contracts, interest/profit rate 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 for the Bank were based on Basel II Standardised Approach under the Risk Weighted Capital Adequacy Framework ('RWCAF'). For HSBC Amanah Malaysia Berhad, the credit conversion factors and risk weighting rules were based on Basel II CAFIB.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 Commitments and Contingencies (Cont'd)

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

31 December 2013	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	1,971,835	-	1,971,835	1,772,082
Transaction-related contingent items	4,659,536	-	2,329,768	1,831,314
Short-term self-liquidating trade-related contingencies	315,459	-	63,092	52,402
Irrevocable commitments to extend credit:				
- Maturity not exceeding one year	12,015,264	-	2,403,053	2,096,693
- Maturity exceeding one year	6,248,092	-	3,124,046	2,581,501
Unutilised credit card lines	6,467,160	-	1,293,432	970,074
Foreign exchange related contracts				
- Less than one year	40,500,738	486,226	1,108,716	575,166
- Over one year to less than five years	9,510,501	385,096	1,081,810	547,580
- Over five years	2,293,105	122,468	361,951	202,525
Interest rate related contracts:				
- Less than one year	12,659,151	30,226	49,872	15,123
- Over one year to less than five years	33,893,539	251,732	1,076,624	375,693
- Over five years	3,731,860	70,429	344,401	128,387
Gold and other precious metals contracts				
- Less than one year	60,712	-	-	-
Equity related contracts				
- Less than one year	1,675,863	39,812	141,527	46,660
- Over one year to less than five years	1,964,862	26,651	184,325	54,404
- Over five years	140,538	685	14,739	2,948
	138,108,215	1,413,325	15,549,191	11,252,552

^ The foreign exchange and equity related contracts, interest rate related contracts, gold and other precious metals 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 the guidelines of the revised Capital Adequacy Framework on the Standardised Approach.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 Commitments and Contingencies (Cont'd)

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

31 December 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
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

^ The foreign exchange and equity related contracts, interest rate 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 II Standardised Approach under the RWCAF.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

39 Derivative Financial Instruments

Details of derivative financial instruments outstanding are as follows:

i) Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts:

	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
Group	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**
At 31 December 2013	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Trading derivatives:												
Foreign exchange contracts												
- Forwards	**34,691,221**	**495,042**	**-**	**35,186,263**	**338,108**	**10,808**	**-**	**348,916**	**295,463**	**10,107**	**-**	**305,570**
- Swaps	**7,278,852**	**8,161,745**	**245,589**	**15,686,186**	**118,016**	**381,010**	**117,877**	**616,903**	**118,930**	**254,959**	**80,429**	**454,318**
- Options	**1,330,507**	**4,869**	**-**	**1,335,376**	**27,850**	**1,475**	**-**	**29,325**	**18,687**	**7**	**-**	**18,694**
Interest/profit rate related contracts												
- Options	**513,950**	**1,064,181**	**30,000**	**1,608,131**	**-**	**14,680**	**-**	**14,680**	**2,731**	**2,669**	**-**	**5,400**
- Swaps	**11,713,678**	**28,582,659**	**3,976,861**	**44,273,198**	**29,545**	**153,422**	**70,087**	**253,054**	**32,937**	**173,833**	**61,147**	**267,917**
Equity related contracts												
- Options purchased	**1,162,877**	**1,399,288**	**140,538**	**2,702,703**	**13,723**	**20,170**	**685**	**34,578**	**36,726**	**9,724**	**-**	**46,450**
Precious metal contracts												
- Options purchased	**60,712**	**-**	**-**	**60,712**	**-**	**-**	**-**	**-**	**104**	**-**	**-**	**104**
Sub- total	**56,751,797**	**39,707,784**	**4,392,988**	**100,852,569**	**527,242**	**581,565**	**188,649**	**1,297,456**	**505,578**	**451,299**	**141,576**	**1,098,453**
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	**355,000**	**1,945,000**	**-**	**2,300,000**	**543**	**22,075**	**-**	**22,618**	**-**	**-**	**-**	**-**
Cash Flow Hedge												
Interest/profit rate related contracts												
- Swaps	**60,000**	**-**	**-**	**60,000**	**70**	**-**	**-**	**70**	**-**	**-**	**-**	**-**
Sub- total	**415,000**	**1,945,000**	**-**	**2,360,000**	**613**	**22,075**	**-**	**22,688**	**-**	**-**	**-**	**-**
Total	**57,166,797**	**41,652,784**	**4,392,988**	**103,212,569**	**527,855**	**603,640**	**188,649**	**1,320,144**	**505,578**	**451,299**	**141,576**	**1,098,453**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

39 Derivative Financial Instruments (Cont'd)

Details of derivative financial instruments outstanding are as follows (cont'd):

i) Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts (cont'd):

	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
Group	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**
At 31 December 2012	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Trading derivatives:												
Foreign exchange contracts												
- Forwards	31,171,370	763,498	-	31,934,868	113,498	29,511	-	143,009	108,331	3,625	-	111,956
- Swaps	4,482,353	10,028,661	2,425,158	16,936,172	53,623	429,148	93,569	576,340	116,227	145,996	33,105	295,328
- Options	1,158,983	467,278	-	1,626,261	5,262	7,510	-	12,772	9,821	135	-	9,956
Interest/profit rate related contracts												
- Future	905,885	430,000	-	1,335,885	92	-	-	92	322	411	-	733
- Options	290,000	758,954	-	1,048,954	-	11,718	-	11,718	5,929	5,111	-	11,040
- Swaps	7,809,687	26,715,449	3,026,471	37,551,607	10,535	189,617	50,111	250,263	10,685	212,449	65,172	288,306
Equity related contracts												
- Options purchased	1,734,796	1,432,169	418,964	3,585,929	10,772	20,028	11,048	41,848	36,941	27,411	-	64,352
Precious metal contracts												
- Options purchased	70,533	-	-	70,533	5,259	17,874	-	23,133	-	-	-	-
Other commodity contracts	22,491	-	-	22,491	-	-	-	-	-	-	-	-
Sub- total	47,646,098	40,596,009	5,870,593	94,112,700	199,041	705,406	154,728	1,059,175	288,256	395,138	98,277	781,671
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	100,000	1,220,000	320,000	1,640,000	346	6,098	13,920	20,364	-	-	-	-
Cash Flow Hedge												
Interest/profit rate related contracts												
- Swaps	50,000	60,000	-	110,000	449	-	-	449	-	-	-	-
Sub- total	150,000	1,280,000	320,000	1,750,000	795	6,098	13,920	20,813	-	-	-	-
Total	47,796,098	41,876,009	6,190,593	95,862,700	199,836	711,504	168,648	1,079,988	288,256	395,138	98,277	781,671

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

39 Derivative Financial Instruments (Cont'd)

Details of derivative financial instruments outstanding are as follows (cont'd):

i) Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts (cont'd):

	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
Bank	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**
At 31 December 2013	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Trading derivatives:												
Foreign exchange contracts												
- Forwards	34,766,133	495,042	-	35,261,175	337,534	10,808	-	348,342	295,331	10,107	-	305,438
- Swaps	7,278,852	8,161,745	245,589	15,686,186	118,016	381,010	117,097	616,123	118,930	254,959	80,429	454,318
- Options	1,352,114	4,869	-	1,356,983	27,850	1,475	-	29,325	21,828	7	-	21,835
Interest rate related contracts												
- Options	513,950	1,733,903	30,000	2,277,853	-	73,488	-	73,488	2,731	53,699	-	56,430
- Swaps	11,812,177	29,937,659	3,976,861	45,726,697	29,614	157,008	70,087	256,709	33,296	175,191	62,755	271,242
Equity related contracts												
- Options purchased	1,675,863	1,964,862	140,538	3,781,263	39,812	26,651	685	67,148	36,726	13,974	-	50,700
Precious metal contracts												
- Options purchased	60,712	-	-	60,712	-	-	-	-	104	-	-	104
Sub- total	57,459,801	42,298,080	4,392,988	104,150,869	552,826	650,440	187,869	1,391,135	508,946	507,937	143,184	1,160,067
Hedging Derivatives:												
Fair Value Hedge												
Interest rate related contracts												
- Swaps	355,000	1,865,000	-	2,220,000	543	21,577	-	22,120	-	-	-	-
Cash Flow Hedge												
Interest rate related contracts												
- Swaps	60,000	-	-	60,000	70	-	-	70	-	-	-	-
Sub- total	415,000	1,865,000	-	2,280,000	613	21,577	-	22,190	-	-	-	-
Total	57,874,801	44,163,080	4,392,988	106,430,869	553,439	672,017	187,869	1,413,325	508,946	507,937	143,184	1,160,067

39 Derivative Financial Instruments (Cont'd)

Details of derivative financial instruments outstanding are as follows (cont'd):

i) Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts (cont'd):

	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
Bank	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**
At 31 December 2012	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Trading derivatives:												
Foreign exchange contracts												
- Forwards	31,110,117	763,498	-	31,873,615	113,104	29,511	-	142,615	107,990	3,625	-	111,615
- Swaps	4,482,353	10,028,661	2,425,158	16,936,172	53,623	429,148	92,676	575,447	116,227	145,996	33,105	295,328
- Options	1,168,265	467,278	-	1,635,543	5,264	7,510	-	12,774	9,801	135	-	9,936
Interest rate related contracts												
- Future	905,885	430,000	-	1,335,885	92	-	-	92	322	411	-	733
- Options	290,000	758,954	-	1,048,954	-	11,718	-	11,718	5,929	5,111	-	11,040
- Swaps	7,819,685	28,008,950	3,026,471	38,855,106	10,535	189,848	49,658	250,041	10,723	218,517	66,496	295,736
Equity related contracts												
- Options purchased	2,466,209	1,616,775	418,964	4,501,948	26,100	41,085	11,048	78,233	36,941	31,167	-	68,108
Precious metal contracts												
- Options purchased	70,533	-	-	70,533	5,259	17,874	-	23,133	-	-	-	-
Other commodity contracts	22,491	-	-	22,491								
Sub- total	48,335,538	42,074,116	5,870,593	96,280,247	213,977	726,694	153,382	1,094,053	287,933	404,962	99,601	792,496
Hedging Derivatives:												
Fair Value Hedge												
Interest rate related contracts												
- Swaps	100,000	1,220,000	320,000	1,640,000	346	6,098	13,920	20,364	-	-	-	-
Cash Flow Hedge												
Interest rate related contracts												
- Swaps	50,000	60,000	-	110,000	449	-	-	449	-	-	-	-
Sub- total	150,000	1,280,000	320,000	1,750,000	795	6,098	13,920	20,813	-	-	-	-
Total	48,485,538	43,354,116	6,190,593	98,030,247	214,772	732,792	167,302	1,114,866	287,933	404,962	99,601	792,496

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 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.

Group 31 December 2013	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	**14,086,927**	**-**	**-**	**-**	**-**	**1,367,580**	**-**	**15,454,507**	**2.91**
Securities purchased under resale agreements	**2,077,398**	**799,872**	**-**	**-**	**-**	**-**	**-**	**2,877,270**	**3.02**
Deposits and placements with banks and other financial institutions	**163,950**	**3,840,671**	**6,719**	**-**	**-**	**-**	**-**	**4,011,340**	**2.82**
Financial assets held-for-trading	**-**	**-**	**-**	**-**	**-**	**-**	**2,333,390**	**2,333,390**	**3.20**
Financial investments available-for-sale	**424,360**	**1,057,765**	**1,519,334**	**3,319,192**	**162,043**	**16,907**	**-**	**6,499,601**	**3.26**
Loans, advances and financing									
- performing	**39,360,228**	**1,642,225**	**701,060**	**1,227,257**	**249,292**	**1,092,418**	**-**	**44,272,480**	**4.86**
- impaired *	**-**	**-**	**-**	**-**	**-**	**387,424**	**-**	**387,424**	**-**
Derivative financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**1,320,144**	**1,320,144**	
Others	**-**	**-**	**-**	**-**	**-**	**2,461,413**	**196,280**	**2,657,693**	**-**
Total Assets	**56,112,863**	**7,340,533**	**2,227,113**	**4,546,449**	**411,335**	**5,325,742**	**3,849,814**	**79,813,849**	
LIABILITIES AND EQUITY									
Deposits from customers	**30,042,874**	**5,889,095**	**7,612,118**	**154,079**	**-**	**11,458,825**	**4,757,428**	**59,914,419**	**2.03**
Deposits and placements from banks and other financial institutions	**4,099,361**	**413,937**	**2,127,831**	**2,400**	**300**	**1,653,999**	**-**	**8,297,828**	**1.35**
Bills and acceptances payable	**3,364**	**902**	**-**	**-**	**-**	**902,329**	**-**	**906,595**	**2.35**
Subordinated bonds	**-**	**-**	**-**	**500,000**	**505,071**	**-**	**-**	**1,005,071**	**4.70**
Multi-Currency Sukuk Programme	**-**	**-**	**-**	**500,000**	**-**	**-**	**-**	**500,000**	**3.75**
Derivative financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**1,098,453**	**1,098,453**	
Others	**-**	**-**	**-**		**-**	**1,503,693**	**148,657**	**1,652,350**	**-**
Total Liabilities	**34,145,599**	**6,303,934**	**9,739,949**	**1,156,479**	**505,371**	**15,518,846**	**6,004,538**	**73,374,716**	
Equity	**-**	**-**	**-**	**-**	**-**	**6,439,133**	**-**	**6,439,133**	
Total Liabilities and Equity	**34,145,599**	**6,303,934**	**9,739,949**	**1,156,479**	**505,371**	**21,957,979**	**6,004,538**	**79,813,849**	
On-balance sheet interest/profit sensitivity gap	**21,967,264**	**1,036,599**	**- 7,512,836**	**3,389,970**	**- 94,036**	**- 16,632,237**	**- 2,154,724**	**-**	
Off-balance sheet interest/profit sensitivity gap									
Interest/profit rate contracts									
- futures	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
- options	**(421,921)**	**(622,645)**	**350,000**	**390,100**	**304,466**	**-**	**-**	**-**	
- swaps	**2,407,426**	**(2,501,060)**	**(1,313,650)**	**1,322,345**	**214,199**	**-**	**-**	**129,260**	
Total interest/profit sensitivity gap	**23,952,769**	**(2,087,106)**	**(8,476,486)**	**5,102,415**	**424,629**	**(16,632,237)**	**(2,154,724)**	**129,260**	

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 Interest/ Profit Rate Risk (Cont'd)

Group 31 December 2012	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	10,466,757	-	-	-	-	2,247,381	-	12,714,138	2.90
Securities purchased under resale agreements	2,033,384	399,962	-	-	-	-	764,670	3,198,016	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	-
Derivative financial assets							1,079,988	1,079,988	-
Others	-	-	-	-	-	2,137,336	92,761	2,230,097	-
Total Assets	49,345,556	5,858,745	1,923,365	6,034,859	1,083,645	5,843,863	6,534,526	76,624,559	
LIABILITIES AND EQUITY									
Deposits from customers	29,210,113	4,942,065	8,519,559	757,076	-	11,314,532	5,194,701	59,938,046	2.11
Deposits and placements from banks and other financial institutions	3,180,800	893,481	54,321	271,466	3,676	1,980,147	-	6,383,891	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
Derivative financial liabilities							781,671	781,671	
Others	-	-	-		-	1,322,635	289,166	1,611,801	
Total Liabilities	32,396,624	5,836,783	8,573,880	2,028,542	516,267	15,114,715	6,265,538	70,732,349	
Equity	-	-	-	-	-	5,892,210	-	5,892,210	
Total Liabilities and Equity	32,396,624	5,836,783	8,573,880	2,028,542	516,267	21,006,925	6,265,538	76,624,559	
On-balance sheet interest/profit sensitivity gap	16,948,932	21,962	- 6,650,515	4,006,317	567,378	- 15,163,062	268,988	-	
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	19,209,452	(3,042,815)	(6,299,627)	4,264,899	886,947	(15,163,062)	268,988	124,782	

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 Interest/ Profit Rate Risk (Cont'd)

	Non-trading book								
Bank **31 December 2013**	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-interest sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective interest rate %**
ASSETS									
Cash and short term funds	**11,334,412**	**-**	**-**	**-**	**-**	**1,224,374**	**-**	**12,558,786**	**2.88**
Securities purchased under resale agreements	**2,077,398**	**799,872**	**-**	**-**	**-**	**-**	**-**	**2,877,270**	**3.02**
Deposits and placements with banks and other financial institutions	**-**	**3,990,671**	**1,048,804**	**163,950**	**-**	**-**	**-**	**5,203,425**	**2.82**
Financial assets held-for-trading	**-**	**-**	**-**	**-**	**-**	**-**	**2,243,731**	**2,243,731**	**3.20**
Financial investments available-for-sale	**424,360**	**1,012,745**	**990,503**	**2,571,821**	**142,259**	**16,907**	**-**	**5,158,595**	**3.33**
Loans, advances and financing									
- performing	**32,014,517**	**1,486,048**	**465,937**	**141,345**	**205,401**	**866,187**	**-**	**35,179,435**	**4.58**
- impaired*	**-**	**-**	**-**	**-**	**-**	**305,295**	**-**	**305,295**	**-**
Derivative financial assets							**1,413,325**	**1,413,325**	
Others	**-**	**-**	**-**	**-**	**-**	**2,664,712**	**195,291**	**2,860,003**	**-**
Total Assets	**45,850,687**	**7,289,336**	**2,505,244**	**2,877,116**	**347,660**	**5,077,475**	**3,852,347**	**67,799,865**	
LIABILITIES AND EQUITY									
Deposits from customers	**24,668,342**	**4,309,578**	**6,259,718**	**112,970**	**-**	**10,621,489**	**2,911,779**	**48,883,876**	**1.91**
Deposits and placements from banks and other financial institutions	**4,099,227**	**413,937**	**2,127,831**	**2,400**	**300**	**1,627,184**	**-**	**8,270,879**	**1.05**
Bills and acceptances payable	**3,364**	**902**	**-**	**-**	**-**	**891,357**	**-**	**895,623**	**2.35**
Subordinated bonds	**-**	**-**	**-**	**500,000**	**505,071**	**-**	**-**	**1,005,071**	**4.70**
Derivative financial liabilities							**1,160,067**	**1,160,067**	
Others	**-**	**-**	**-**	**-**	**-**	**1,513,979**	**148,619**	**1,662,598**	**-**
Total Liabilities	**28,770,933**	**4,724,417**	**8,387,549**	**615,370**	**505,371**	**14,654,009**	**4,220,465**	**61,878,114**	
Equity	**-**	**-**	**-**	**-**	**-**	**5,921,751**	**-**	**5,921,751**	
Total Liabilities and Equity	**28,770,933**	**4,724,417**	**8,387,549**	**615,370**	**505,371**	**20,575,760**	**4,220,465**	**67,799,865**	
On-balance sheet interest sensitivity gap	**17,079,754**	**2,564,919**	**(5,882,305)**	**2,261,746**	**(157,711)**	**(15,498,285)**	**(368,118)**	**-**	
Off-balance sheet interest sensitivity gap									
Interest rate contracts									
- futures	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
- options	**(350,000)**	**(360,100)**	**350,000**	**390,100**	**(30,000)**	**-**	**-**	**-**	
- swaps	**2,407,426**	**(2,501,060)**	**(1,313,650)**	**1,269,345**	**247,019**	**-**	**-**	**109,080**	
Total interest sensitivity gap	**19,137,180**	**(296,241)**	**(6,845,955)**	**3,921,191**	**59,308**	**(15,498,285)**	**(368,118)**	**109,080**	

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 Interest/ Profit Rate Risk (Cont'd)

Bank 31 December 2012	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
ASSETS									
Cash and short term funds	8,967,823	-	-	-	-	2,096,995	-	11,064,818	2.87
Securities purchased under resale agreements	2,033,384	399,962	-	-	-	-	764,670	3,198,016	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	-
Derivative financial assets							1,114,866	1,114,866	
Others	-	-	-	-	-	2,368,013	87,426	2,455,439	-
Total Assets	41,507,904	5,462,176	3,084,335	4,313,383	492,794	5,714,111	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	271,465	3,676	1,970,372	-	6,274,116	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
Derivative financial liabilities							792,496	792,496	
Others	-	-	-	-	-	1,294,561	282,888	1,577,449	-
Total Liabilities	27,746,203	4,661,805	7,487,359	1,489,370	516,267	14,502,062	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	1,489,370	516,267	20,014,492	5,040,767	66,956,263	
On-balance sheet interest sensitivity gap	13,761,701	800,371	- 4,403,024	2,824,013	- 23,473	- 14,300,381	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	15,988,936	(2,125,184)	(4,119,898)	3,044,420	296,096	(14,300,381)	1,340,793	124,782	

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

41 Liquidity Risk

The following tables summarise the Group and the Bank's exposure to liquidity risk. The asset and liabilities at carrying amount are allocated to time bands by reference to the remaining contractual maturity and/or their behavioral profile.

Group 31 December 2013	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-specific maturity RM'000	Trading book RM'000	Total RM'000
ASSETS								
Cash and short term funds	15,454,507	-	-	-	-	-	-	15,454,507
Securities purchased under resale agreements	2,077,398	799,872	-	-	-	-	-	2,877,270
Deposits and placements with banks and other financial institutions	163,950	3,840,671	6,719	-	-	-	-	4,011,340
Financial assets held-for-trading	-	-	-	-	-	-	2,333,390	2,333,390
Financial investments available-for-sale	424,360	1,057,765	1,519,334	3,319,192	162,043	16,907	-	6,499,601
Loans, advances and financing	10,634,367	5,926,007	2,398,894	4,631,186	21,069,451	-	-	44,659,904
Derivative financial assets	-	-	-	-	-	-	1,320,144	1,320,144
Others	27,767	76,901	-	-	-	2,356,745	196,280	2,657,693
Total Assets	28,782,349	11,701,216	3,924,947	7,950,378	21,231,494	2,373,652	3,849,814	79,813,849
LIABILITIES AND EQUITY								
Deposits from customers	41,501,699	5,889,095	7,612,118	154,079	-	-	4,757,428	59,914,419
Deposits and placements from banks and other financial institutions	5,753,360	413,937	2,127,831	2,400	300	-	-	8,297,828
Bills and acceptances payable	905,693	902	-	-	-	-	-	906,595
Multi-Currency Sukuk Programme	-	-	-	500,000	-	-	-	500,000
Subordinated bonds	-	-	-	500,000	505,071	-	-	1,005,071
Derivative financial liabilities	-	-	-	-	-	-	1,098,453	1,098,453
Others	207,660	165,521	4,132	37,849	-	1,088,505	148,683	1,652,350
Total Liabilities	48,368,412	6,469,455	9,744,081	1,194,328	505,371	1,088,505	6,004,564	73,374,716
Equity	-	-	-	-	-	6,439,133	-	6,439,133
Total Liabilities and Equity	48,368,412	6,469,455	9,744,081	1,194,328	505,371	7,527,638	6,004,564	79,813,849
Net maturity mismatches	(19,586,063)	5,231,761	(5,819,134)	6,756,050	20,726,123	(5,153,986)		
Off-balance sheet liabilities	36,340,056	20,520,621	28,512,758	47,838,018	6,789,921	-	-	140,001,374

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

41 Liquidity Risk (Cont'd)

Group 31 December 2012	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-specific maturity RM'000	Trading book RM'000	Total RM'000
ASSETS								
Cash and short term funds	12,714,138	-	-	-	-	-	-	12,714,138
Securities purchased under resale agreements	2,033,384	399,962	-	-	-	-	764,670	3,198,016
Deposits and placements with banks and other financial institutions	-	2,610,617	382,376	-	-	-	-	2,992,993
Financial assets held-for-trading	-	-	-	-	-	-	4,597,107	4,597,107
Financial investments available-for-sale	582,523	579,904	950,692	4,646,782	769,516	16,908	-	7,546,325
Loans, advances and financing	10,186,871	6,021,096	2,022,956	4,358,628	19,676,344	-	-	42,265,895
Derivative financial assets	-	-	-	-	-	-	1,079,988	1,079,988
Others	30,639	70,446	-	-	-	2,036,251	92,761	2,230,097
Total Assets	25,547,555	9,682,025	3,356,024	9,005,410	20,445,860	2,053,159	6,534,526	76,624,559
LIABILITIES AND EQUITY								
Deposits from customers	40,524,645	4,942,065	8,519,559	757,076	-	-	5,194,701	59,938,046
Deposits and placements from banks and other financial institutions	5,160,947	893,481	54,323	271,464	3,676	-	-	6,383,891
Bills and acceptances payable	503,112	1,237	-	-	-	-	-	504,349
Multi-Currency Sukuk Programme	-	-	-	500,000	-	-	-	500,000
Subordinated bonds	-	-	-	500,000	512,591	-	-	1,012,591
Derivative financial liabilities	-	-	-	-	-	-	781,671	781,671
Others	99,061	145,809	4,389	79,829	-	993,547	289,166	1,611,801
Total Liabilities	46,287,765	5,982,592	8,578,271	2,108,369	516,267	993,547	6,265,538	70,732,349
Equity	-	-	-	-	-	5,892,210	-	5,892,210
Total Liabilities and Equity	46,287,765	5,982,592	8,578,271	2,108,369	516,267	6,885,757	6,265,538	76,624,559
Net maturity mismatches	(20,740,210)	3,699,433	(5,222,247)	6,897,041	19,929,593	(4,832,598)	268,988	
Off-balance sheet liabilities								
Commitments and Contingencies	36,066,473	16,587,154	21,787,664	45,820,811	6,735,223	-	-	126,997,325

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

41 Liquidity Risk (Cont'd)

	Non-trading book							
Bank **31 December 2013**	**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-specific** **maturity** **RM'000**	**Trading** **book** **RM'000**	**Total** **RM'000**
ASSETS								
Cash and short term funds	**12,558,786**	**-**	**-**	**-**	**-**	**-**	**-**	**12,558,786**
Securities purchased								
under resale agreements	**2,077,398**	**799,872**	**-**	**-**	**-**	**-**	**-**	**2,877,270**
Deposits and placements with banks								
and other financial institutions	**-**	**3,990,671**	**1,048,804**	**163,950**	**-**	**-**	**-**	**5,203,425**
Financial assets held-for-trading	**-**	**-**	**-**	**-**	**-**	**-**	**2,243,731**	**2,243,731**
Financial investments available-for-sale	**424,360**	**1,012,745**	**990,503**	**2,571,821**	**142,259**	**16,907**	**-**	**5,158,595**
Loans, advances and financing	**8,675,625**	**4,485,971**	**2,096,592**	**3,402,582**	**16,823,960**	**-**	**-**	**35,484,730**
Derivative financial assets							**1,413,325**	**1,413,325**
Others	**23,963**	**72,024**	**-**	**-**	**-**	**2,568,725**	**195,291**	**2,860,003**
Total Assets	**23,760,132**	**10,361,283**	**4,135,899**	**6,138,353**	**16,966,219**	**2,585,632**	**3,852,347**	**67,799,865**
LIABILITIES AND EQUITY								
Deposits from customers	**35,289,831**	**4,309,578**	**6,259,718**	**112,970**	**-**	**-**	**2,911,779**	**48,883,876**
Deposits and placements								
from banks and other							**-**	
financial institutions	**5,726,411**	**413,937**	**2,127,831**	**2,400**	**300**	**-**	**-**	**8,270,879**
Bills and acceptances								
payable	**894,721**	**902**	**-**	**-**	**-**	**-**	**-**	**895,623**
Subordinated bonds	**-**	**-**	**-**	**500,000**	**505,071**	**-**	**-**	**1,005,071**
Derivative financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**1,160,067**	**1,160,067**
Others	**189,293**	**275,486**	**4,132**	**35,354**	**-**	**1,009,714**	**148,619**	**1,662,598**
Total Liabilities	**42,100,256**	**4,999,903**	**8,391,681**	**650,724**	**505,371**	**1,009,714**	**4,220,465**	**61,878,114**
Equity	**-**	**-**	**-**	**-**	**-**	**5,921,751**	**-**	**5,921,751**
Total Liabilities and Equity	**42,100,256**	**4,999,903**	**8,391,681**	**650,724**	**505,371**	**6,931,465**	**4,220,465**	**67,799,865**
Net maturity mismatches	**(18,340,124)**	**5,361,380**	**(4,255,782)**	**5,487,629**	**16,460,848**	**(4,345,833)**	**(368,118)**	**-**
Off-balance sheet liabilities								
Commitments and Contingencies	**34,283,762**	**19,904,905**	**28,089,223**	**49,040,404**	**6,789,921**	**-**	**-**	**138,108,215**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

41 Liquidity Risk (Cont'd)

	Non-trading book							
Bank 31 December 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-specific maturity RM'000**	**Trading book RM'000**	**Total RM'000**
ASSETS								
Cash and short term funds	11,064,818	-	-	-	-	-	-	11,064,818
Securities purchased under resale agreements	2,033,384	399,962	-	-	-	-	764,670	3,198,016
Deposits and placements with banks and other financial institutions	-	2,630,501	2,014,967	-	-	-	-	4,645,468
Financial assets held-for-trading	-	-	-	-	-	-	4,414,598	4,414,598
Financial investments available-for-sale	558,892	504,842	745,480	4,169,570	285,350	16,908	-	6,281,042
Loans, advances and financing	8,550,939	4,350,224	1,690,059	2,980,329	16,210,465	-	-	33,782,016
Derivative financial assets	-	-	-	-	-	-	1,114,866	1,114,866
Others	26,879	76,425	-	-	-	2,264,709	87,426	2,455,439
Total Assets	22,234,912	7,961,954	4,450,506	7,149,899	16,495,815	2,281,617	6,381,560	66,956,263
LIABILITIES AND EQUITY								
Deposits from customers	35,414,846	3,767,087	7,433,037	717,905	-	-	3,965,383	51,298,258
Deposits and placements								
from banks and other							-	
financial institutions	5,051,172	893,481	54,322	271,465	3,676	-	-	6,274,116
Bills and acceptances payable	487,686	1,237	-	-	-	-	-	488,923
Subordinated bonds	-	-	-	500,000	512,591	-	-	1,012,591
Derivative financial liabilities							792,496	792,496
Others	86,302	210,220	4,389	77,374	-	916,276	282,888	1,577,449
Total Liabilities	41,040,006	4,872,025	7,491,748	1,566,744	516,267	916,276	5,040,767	61,443,833
Equity	-	-	-	-	-	5,512,430	-	5,512,430
Total Liabilities and Equity	41,040,006	4,872,025	7,491,748	1,566,744	516,267	6,428,706	5,040,767	66,956,263
Net maturity mismatches	(18,805,094)	3,089,929	(3,041,242)	5,583,155	15,979,548	(4,147,089)	1,340,793	
Off-balance sheet liabilities								
Commitments and Contingencies	34,131,332	16,125,618	21,704,585	46,294,708	6,732,259	-	-	124,988,502

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

42 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 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Carrying amount of assets and collateral pledged				
- Sold under repurchase agreements	**152,660**	223,467	**-**	-
- Collateral pledged on derivative contracts (ISDA*)	**109,216**	111,237	**109,216**	111,237
Fair value of assets and collateral accepted				
- Securities bought under reverse repurchase agreement	**2,877,270**	3,198,017	**2,877,270**	3,198,017
- Securities sold under repurchase agreement	**78,343**	232,875	**78,343**	232,875
- Collateral accepted on derivative contracts (ISDA*)	**276,654**	33,470	**276,654**	33,470

* *ISDA: International Swaps and Derivatives Association*

43 Fair Values of Financial Assets and Liabilities not measured at fair value

The following table summarises the fair value of the financial assets and liabilities not measured at fair value that was carried on the balance sheet at 31 December.

	Group			
	31 Dec 2013 Carrying amount	**31 Dec 2013 Fair Value**	31 Dec 2012 Carrying amount	31 Dec 2012 Fair Value
	RM'000	**RM'000**	RM'000	RM'000
Financial Assets				
Cash and short term funds	**15,454,507**	**15,454,507**	12,714,138	12,714,138
Securities purchased under resale agreements	**2,877,270**	**2,877,270**	3,198,016	3,198,016
Deposits and placements with banks and other financial institutions	**4,011,340**	**4,011,340**	2,992,993	2,992,993
Loans, advances and financing	**44,659,904**	**44,428,872**	42,265,895	42,230,173
Financial Liabilities				
Deposits from customers	**59,914,419**	**60,007,732**	59,938,046	59,890,744
Deposits and placements from banks and other financial institutions	**8,297,828**	**8,276,715**	6,383,891	6,354,156
Bills and acceptances payable	**906,595**	**906,595**	504,349	504,349
Multi-Currency Sukuk Programme	**500,000**	**499,719**	500,000	502,169
Subordinated bonds	**1,005,071**	**1,037,606**	1,012,591	1,048,027

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

43 Fair Values of Financial Assets and Liabilities not measured at fair value (Cont'd)

The following table summarises the fair value of the financial assets and liabilities not measured at fair value that was carried on the statement of financial position at 31 December.

	Bank			
	31 Dec 2013 Carrying amount RM'000	**31 Dec 2013 Fair Value RM'000**	31 Dec 2012 Carrying amount RM'000	31 Dec 2012 Fair Value RM'000
Financial Assets				
Cash and short term funds	**12,558,786**	**12,558,786**	11,064,818	11,064,818
Securities purchased under resale agreements	**2,877,270**	**2,877,270**	3,198,016	3,198,016
Deposits and placements with banks and other financial institutions	**5,203,425**	**5,203,425**	4,645,468	4,645,468
Loans, advances and financing	**35,484,730**	**35,255,867**	33,782,016	33,752,873
Financial Liabilities				
Deposits from customers	**48,883,876**	**49,005,875**	51,298,258	51,281,501
Deposits and placements from banks and other financial institutions	**8,270,879**	**8,270,875**	6,274,116	6,274,099
Bills and acceptances payable	**895,623**	**895,623**	488,923	488,923
Subordinated bonds	**1,005,071**	**1,037,606**	1,012,591	1,048,027

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

43 Fair Values of Financial Assets and Liabilities not measured at fair value (Cont'd)

The following tables sets out the fair values of the financial assets and financial liabilities not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

			Group		
31 December 2013*					**Total**
				Total	**carrying**
RM'000	**Level 1**	**Level 2**	**Level 3**	**fair values**	**amount**
Financial Assets					
Cash and short term funds	-	-	**15,454,507**	**15,454,507**	**15,454,507**
Securities purchased under resale agreements	-	-	**2,877,270**	**2,877,270**	**2,877,270**
Deposits and placements with banks and other financial institutions	-	-	**4,011,340**	**4,011,340**	**4,011,340**
Loans, advances and financing	-	-	**44,428,872**	**44,428,872**	**44,659,904**
Financial Liabilities					
Deposits from customers	-	-	**60,007,732**	**60,007,732**	**59,914,419**
Deposits and placements from banks and other financial institutions	-	-	**8,276,715**	**8,276,715**	**8,297,828**
Bills and acceptances payable	-	-	**906,595**	**906,595**	**906,595**
Multi-Currency Sukuk Programme	-	-	**499,719**	**499,719**	**500,000**
Subordinated bonds	-	-	**1,037,606**	**1,037,606**	**1,005,071**

			Bank		
31 December 2013*					**Total**
				Total	**carrying**
RM'000	**Level 1**	**Level 2**	**Level 3**	**fair values**	**amount**
Financial Assets					
Cash and short term funds	-	-	**12,558,786**	**12,558,786**	**12,558,786**
Securities purchased under resale agreements	-	-	**2,877,270**	**2,877,270**	**2,877,270**
Deposits and placements with banks and other financial institutions	-	-	**5,203,425**	**5,203,425**	**5,203,425**
Loans, advances and financing	-	-	**35,255,867**	**35,255,867**	**35,484,730**
Financial Liabilities					
Deposits from customers	-	-	**49,005,875**	**49,005,875**	**48,883,876**
Deposits and placements from banks and other financial institutions	-	-	**8,270,875**	**8,270,875**	**8,270,879**
Bills and acceptances payable	-	-	**895,623**	**895,623**	**895,623**
Subordinated bonds	-	-	**1,037,606**	**1,037,606**	**1,005,071**

* Comparative figures have not been analysed by levels, by virtue of transitional provision given in Appendix C2 of MFRS 13.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

44 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 (if any) are as follows:

	Group		*Bank*	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
Year	**RM'000**	RM'000	**RM'000**	RM'000
Less than one year	**35,949**	35,082	**28,971**	28,289
Between one and three years	**34,044**	40,146	**30,654**	34,963
Between three and five years	**801**	25,369	**801**	25,369
More than five years	**-**	11,787	**-**	11,787
	70,794	112,384	**60,426**	100,408

45 Capital Commitments

	Group		*Bank*	
	31 Dec 2013	31 Dec 2012	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000	**RM'000**	RM'000
Capital expenditure commitments:				
Property and equipment				
- Authorised and contracted , but not provided for	**1,019**	4,930	**926**	1,441
- Authorised but not contracted for	**33**	1,234	**33**	875
	1,052	6,164	**959**	2,316

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

46 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	**2013 Number ('000)**	**Weighted average exercise price £**	2012 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	**-**		-	

	2013 RM'000	2012 RM'000
Compensation cost recognised during the year	**-**	-

Bank

Year	**2013 Number ('000)**	**Weighted average exercise price £**	2012 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	**-**		-	

	2013 RM'000	2012 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

46 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	**2013 Number ('000)**	**Weighted average exercise price £**	2012 Number ('000)	Weighted average exercise price £
Outstanding at 1 January	**3,280**	**4.76**	4,620	4.14
Granted in the year	**-**	**-**	710	4.46
Exercised in the year	**(288)**	**4.68**	(1,611)	3.01
Lapsed in the year	**(240)**	**3.89**	(439)	4.09
Outstanding at 31 December	**2,752**	**4.85**	3,280	4.76
Options vested at 31 December	**288**		1,611	

	2013 RM'000	2012 RM'000
Compensation cost recognised during the year	**2,395**	3,878

Bank

Year	**2013 Number ('000)**	**Weighted average exercise price £**	2012 Number ('000)	Weighted average exercise price £
Outstanding at 1 January	**3,244**	**4.76**	4,586	4.13
Granted in the year	**-**	**-**	693	4.46
Exercised in the year	**(282)**	**4.69**	(1,599)	3.00
Lapsed in the year	**(233)**	**3.89**	(436)	4.08
Outstanding at 31 December	**2,729**	**4.84**	3,244	4.76
Options vested at 31 December	**282**		1,599	

	2013 RM'000	2012 RM'000
Compensation cost recognised during the year	**2,401**	3,841

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

46 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*	
	2013	2012	**2013**	2012
	Number	Number	**Number**	Number
	('000)	('000)	**('000)**	('000)
Outstanding at 1 January	**2,508**	704	**2,495**	693
Additions during the year	**2,187**	2,604	**2,175**	2,597
Released in the year	**(478)**	(800)	**(470)**	(795)
Outstanding at 31 December	**4,217**	2,508	**4,200**	2,495

	2013	2012	**2013**	2012
	RM'000	RM'000	**RM'000**	RM'000
Compensation cost recognised during the year	**10,982**	15,230	**10,598**	14,858

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan is £6.39 (2012: £5.67). The closing price of the HSBC share at 31 December 2013 was £6.62 (2012: £6.47). The weighted average remaining vesting period as at 31 December 2013 was 2.46 years (2012: 2.89 years).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

47 Comparative Figures

Restatement of Comparative Figures

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

(i) Reclassification to conform to current period's presentation.

	Statement of Financial Position at 31 December 2012	Group		Bank	
		RM'000 As restated	RM'000 As previously stated	RM'000 As restated	RM'000 As previously stated
a)	**Cash and short term funds**	12,714,138	12,663,437	11,064,818	11,014,117
	(of which the affected component is disclosed below) :				
	Other financial institutions	10,042,244	9,991,543	8,543,310	8,492,609
b)	**Securities purchased under resale agreements**	3,198,016	2,433,346	3,198,016	2,433,346
c)	**Derivative financial assets**	1,079,988	-	1,114,866	-
d)	**Other Assets**	301,205	2,196,564	279,428	2,209,665
	(of which the affected component is disclosed below) :				
	Derivative financial assets	-	1,079,988	-	1,114,866
	Other receivables, deposits and prepayments	181,112	996,483	172,804	988,175
e)	**Deposits and Placements from Banks and Other Financial Institutions**	6,383,891	6,117,046	6,274,116	6,007,271
	(of which the affected component is disclosed below) :				
	Other financial institutions	6,227,005	5,960,160	6,227,005	5,960,160
f)	**Derivative financial liabilities**	781,671	-	792,496	-
g)	**Other Liabilities**	1,597,633	2,646,149	1,566,588	2,625,929
	(of which the affected component is disclosed below) :				
	Derivative financial liabilities	-	781,671	-	792,496
	Other creditors and accruals	1,376,453	1,643,298	1,388,663	1,655,508
h)	**Loans, Advances and Financing**	42,972,317	42,972,317	34,313,206	34,313,206
	(of which the affected component is disclosed below) :				
	By sector				
	Agricultural, hunting, forestry and fishing	2,221,670	2,176,877	1,659,225	1,634,240
	Manufacturing	6,291,892	7,036,938	5,129,046	5,783,512
	Construction	1,634,788	1,391,559	1,368,358	1,136,318
	Real estate	1,927,200	1,779,334	1,368,558	1,250,039
	Wholesale & retail trade and restaurants & hotels	3,013,913	2,861,976	2,408,150	2,247,830
	Transport, storage and communication	536,123	502,279	230,743	217,321
	Finance, insurance and business services	2,128,551	2,055,058	1,894,162	1,825,814
	Others	2,566,132	2,516,248	2,211,926	2,175,094
	By type of customer				
	Domestic non-bank financial institutions	400,180	93,237	93,237	93,237
	Domestic business enterprises:				
	Others	10,092,551	10,399,494	7,980,962	7,980,962

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

47 Comparative Figures (Cont'd)

(ii) Reclassification to conform to current period's presentation.
Statement of Profit or Loss for the year ended at 31 December 2012

	Group		Bank	
	RM'000 As restated	RM'000 As previously stated	RM'000 As restated	RM'000 As previously stated
a) **Net Interest Income**	1,327,324	1,293,005	1,386,664	1,352,345
(of which the affected components are disclosed below) :				
Interest income				
Loans and advances				
- Interest income other than from impaired loans	1,596,721	1,644,206	1,596,721	1,644,206
- Interest income recognised from impaired loans	49,920	2,441	49,920	2,441
Money at call and deposit placements with financial institutions	446,020	450,775	505,360	510,115
Fair value hedge derivative assets	-	4,018	-	4,018
Interest expense				
Deposits and placements of banks and other financial institutions	(65,614)	(109,227)	(65,614)	(109,227)
Deposits from customers	(806,648)	(805,063)	(806,648)	(805,063)
Subordinated bonds	(43,111)	(47,129)	(43,111)	(47,129)
Others	(7,839)	(4,891)	(7,839)	(4,891)

	Group		Bank	
	RM'000 As restated	RM'000 As previously stated	RM'000 As restated	RM'000 As previously stated
b) **Net Trading Income**	588,574	622,893	587,361	621,680
(of which the affected components are disclosed below) :				
Net interest (expense)/income from financial assets held-for-trading	(2,463)	31,856	(2,463)	31,856
Net gains arising from trading in derivatives	65,338	65,309	65,005	64,976
Losses arising from fair value hedges	167	196	167	196

c) **Other operating expenses**

	Group		Bank	
	RM'000 As restated	RM'000 As previously stated	RM'000 As restated	RM'000 As previously stated
Personnel expenses	594,621	607,128	566,147	571,264
Promotion and marketing related expenses	73,376	76,352	57,294	60,270
Establishment related expenses	156,295	156,295	136,319	136,319
General administrative expenses	395,003	379,520	363,799	355,706

(The following change affected only the following disclosure note, without impact on the main operating expenses categories.)

General administration expenses				
Intercompany expenses	226,349	247,111	219,554	240,317

(iii) Restatement to conform with the revised Capital Adequacy Framework (Capital Components)

Capital Adequacy at 31 December 2012	Group		Bank	
	RM'000 As restated	RM'000 As previously stated	RM'000 As restated	RM'000 As previously stated
Total Common Equity Tier 1 (CET 1) and Tier 1 capital	5,461,540	5,413,790	5,123,264	5,077,359
Total Tier 2 capital	1,379,821	1,402,050	632,073	654,302
Capital base	6,841,361	6,815,840	5,755,337	5,731,661
Inclusive of proposed dividend				
CET 1 and Tier 1 Capital ratio	11.323%	11.224%	12.745%	12.631%
Total Capital ratio	14.183%	14.130%	14.318%	14.259%
Net of proposed dividend				
CET 1 and Tier 1 Capital ratio	10.701%	10.602%	11.999%	11.885%
Total Capital ratio	13.561%	13.508%	13.571%	13.513%